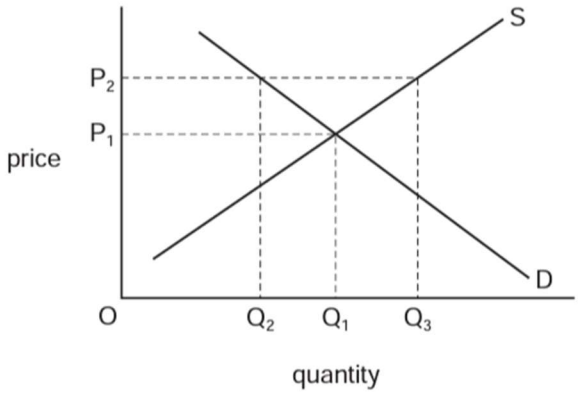
Government Intervention – MCQs

1) 9708/s10/11/Q11

The government imposes a maximum price of P_2 on a product.



What will be the position after this action?

A an equilibrium with price P_1 and quantity Q_1

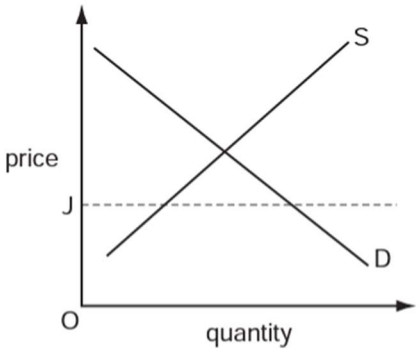
B an equilibrium with price P_2 and a quantity between Q_2 and Q_3

C an oversupply in the market by Q_2Q_3

D a shortage in the market of Q_2Q_3

2) 9708/s10/11/Q18

The diagram shows the demand and supply curves of a good.



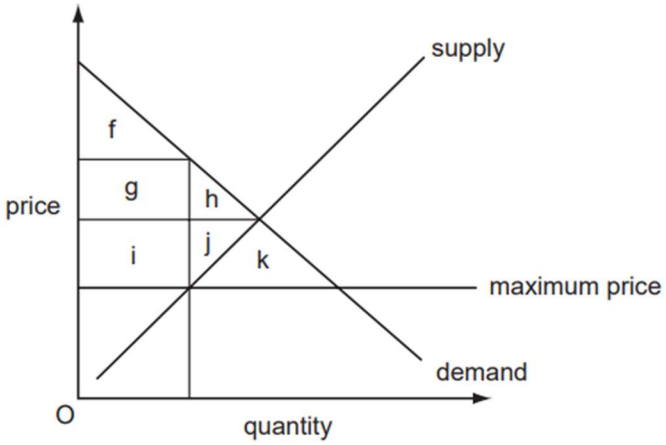
The government sets a maximum price of OJ for the good.

How will this affect the consumers and producers of the good?

	effect on consumers	effect on producers
A	All consumers will gain.	Producers will lose.
B	All consumers will gain.	Producers will gain.
C	Some consumers will gain and some will lose.	Producers will gain.
D	Some consumers will gain and some will lose.	Producers will lose.

3) 9708/w10/11/Q11

Which area in the diagram represents the amount of consumer surplus that would occur in a market if a government enforced an effective maximum price?



A f only

B f + g + h only

C f + g + i only

D f + g + h + i + j + k

4) 9708/w10/11/Q14

What is the most likely reason economists will give to explain why large hospital projects are often funded by governments?

A Governments usually control the construction industry.

B Hospitals benefit many people who do not use them.

C Hospitals are non-excludable.

D Hospitals are an essential service.

5) 9708/w10/11/Q16

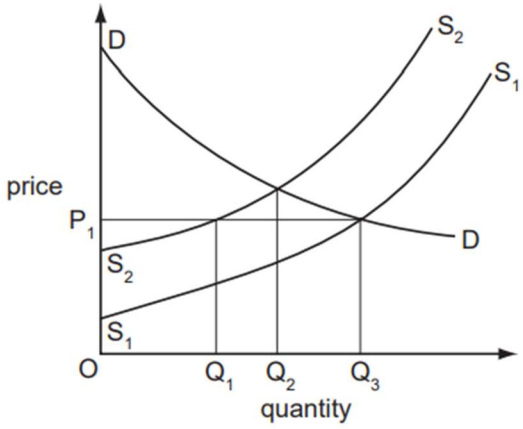
The table shows the expected costs and benefits from four government projects. The government can afford only one project.

Which project should the government choose?

	private benefits $m	external benefits $m	private costs $m	external costs $m
A	40	200	60	70
B	60	160	100	20
C	100	210	100	120
D	150	90	120	140

6) 9708/w10/11/Q18

In the diagram, S_1S_1 and DD represent the original supply and demand curves for an agricultural product.



Bad weather then reduces supply to S_2S_2.

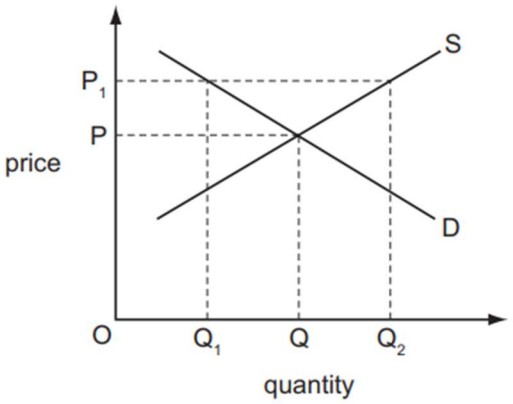
The government does not allow the price to rise above OP_1.

How much of the product will the government have to supply from stocks if the price is to be maintained at OP_1?

A OQ_3 **B** Q_1Q_3 **C** Q_1Q_2 **D** Q_2Q_3

7) 9708/s11/11/Q12

The diagram shows the demand and supply curves for a good.



The government fixed a maximum price of OP_1.

What would this have achieved?

A the guarantee of supplies of OQ_2

B the market equilibrium of quantity OQ

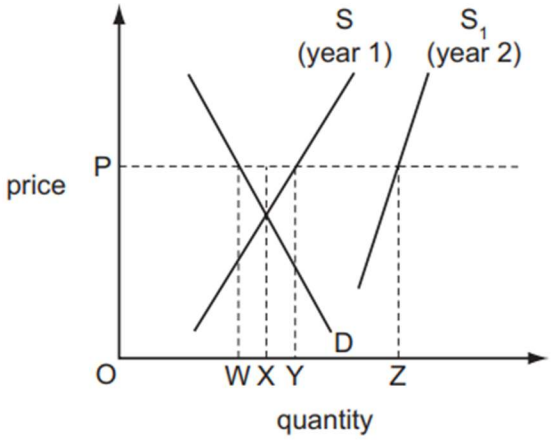
C the need for a government subsidy of PP_1

D the rationing of the product for consumers to OQ_1

8) 9708/s11/11/Q18

In the diagram S and S_1 are the supply curves for an agricultural product in years 1 and 2 respectively. D is the demand curve in years 1 and 2.

In year 1 the government purchased an amount necessary to ensure that the price was OP.



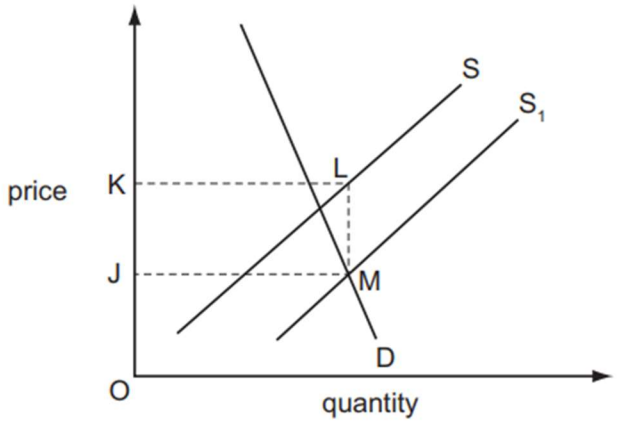
The price is held at OP in year 2.

How much more must the government buy in year 2 than it bought in year 1?

A WX **B** XY **C** XZ **D** YZ

9) 9708/w11/11/Q12

The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S to S_1.



What does the area JKLM represent?

A the additional saving to importers of the removal of a tariff on rice

B the cost to the government of a subsidy to rice growers

C the increase in consumer surplus from the introduction of a maximum price for rice

D the loss in government revenue from the reduction in a lump sum tax on rice

10) 9708/w11/11/Q18

What must a government do to stabilise the price of an agricultural commodity?

	when demand exceeds supply	when supply exceeds demand
A	add the excess demand to a buffer stock	release an amount equal to the excess supply from a buffer stock
B	meet excess demand by running down a buffer stock	purchase the excess supply and add it to a buffer stock
C	subsidise production	impose a tax on consumers
D	tax consumers of the commodity	subsidise production

11) 9708/w11/12/Q9

The table shows demand and supply schedules for red peppers. The equilibrium price is initially 15 cents per kg.

price per kg cents	amount demanded kg (thousands)	amount supplied kg (thousands)
30	11	22
25	12	19
20	13	17
15	15	15
10	17	13
5	20	11

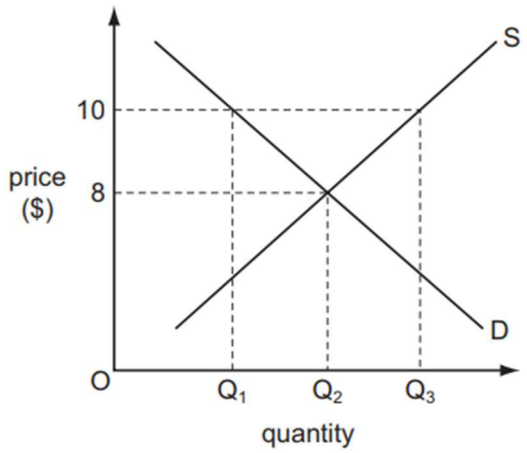
The government pays a subsidy of 10 cents per kg to producers.

What will be the new equilibrium price charged to consumers?

A 5 cents **B** 10 cents **C** 15 cents **D** 20 cents

12) 9708/w11/12/Q18

The diagram shows the market demand and supply curves for rice.



What would happen if a government imposed a maximum price of $10?

A The government would need to supply Q_1 to Q_3.

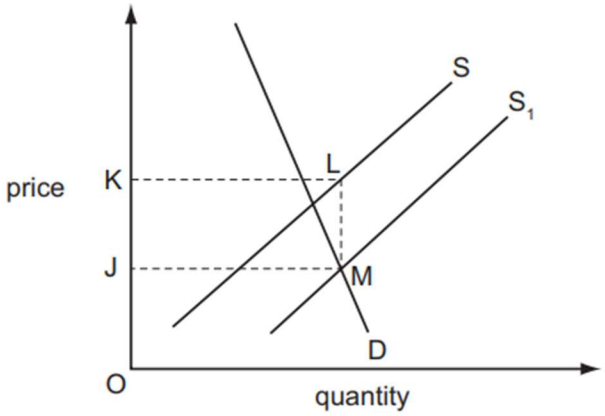
B The quantity sold would be Q_1.

C The quantity sold would be Q_2.

D The quantity sold would increase from Q_2 to Q_3.

13) 9708/w11/13/Q10

The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S to S_1.



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14) 9708/s12/11/Q16

Why does the production of public goods have to be financed by the government?

A One person's consumption of a public good means it is not available for anyone else.

B People are able to consume public goods without paying for them.

C Private sector firms will charge a price significantly above cost for public goods.

D The cost of producing public goods is higher in the private sector.

15) 9708/s12/11/Q17

The government has to choose the best one of four possible sites to locate a port.

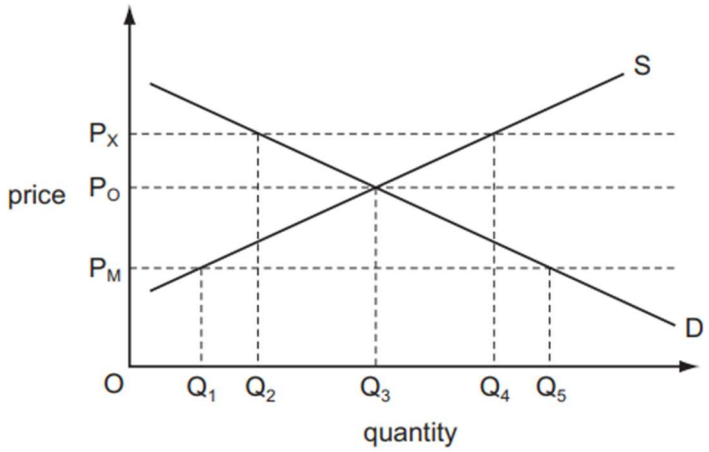
The benefits and costs of each site are shown in $m in the table.

Which site would be chosen?

	private benefits	external benefits	private costs	external costs
A	700	1100	20	5
B	800	1100	80	40
C	900	600	10	50
D	1000	900	100	200

16) 9708/s12/11/Q18

The diagram shows the market for spectacles. Initially the market equilibrium price is P_O and quantity Q_3 is bought and sold.



The government then sets both a maximum price of P_X and a minimum price of P_M.

What effect will these measures have on the market for spectacles?

A create a shortage of spectacles equal to Q_1Q_5

B create a surplus of spectacles equal to Q_2Q_4

C create a surplus of spectacles equal to Q_3Q_4

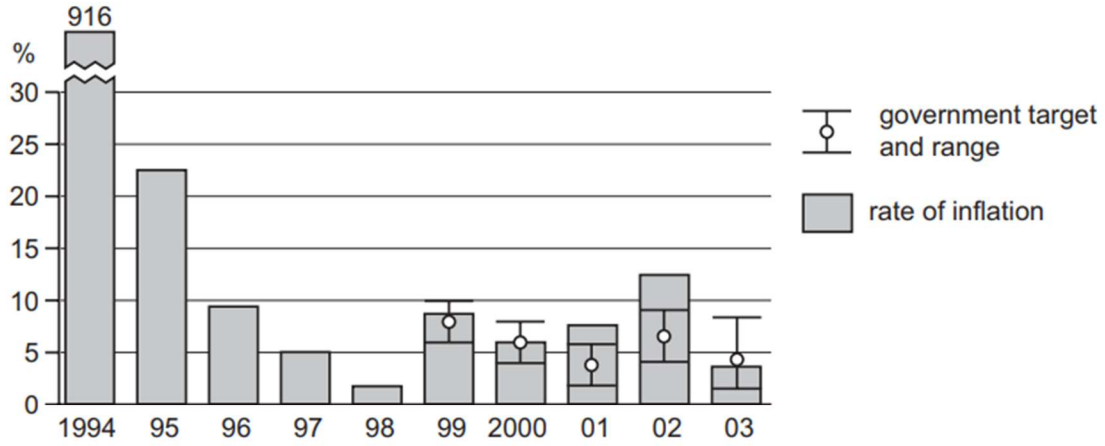
D leave the quantity bought and sold unchanged

17) 9708/s12/11/Q26

Before 1999 the Brazilian government did not have a desired target rate of inflation. From 1999 it set target rates within an upper and lower boundary.

The diagram shows the rate of inflation between 1994 and 2003 and the target rate between 1999 and 2003.

Inflation and inflation targets in Brazil, 1994 to 2003



What can be concluded from the diagram?

A The Brazilian government achieved its target in each year from 1999 to 2003.

B The inflation target was continuously reduced.

C The lowest level of inflation was achieved when an inflation target was used.

D The inflation rate was more stable after inflation targets were introduced.

18) 9708/s12/11/Q27

A government decides to reduce the quota on imported cars from 2000 to 1000 per year.

What is likely to happen?

A The balance of trade may improve.

B The demand for the good will increase.

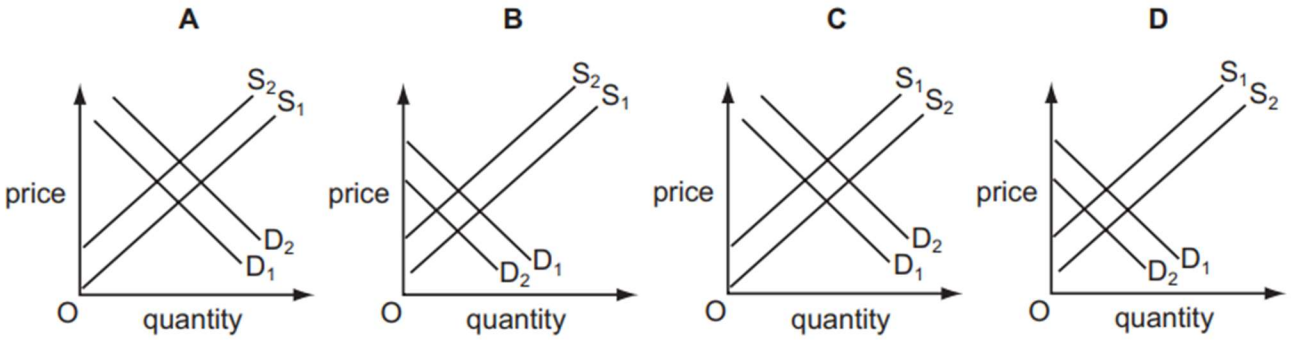
C The good will become cheaper.

D The government's revenue will decline.

19) 9708/s12/12/Q11

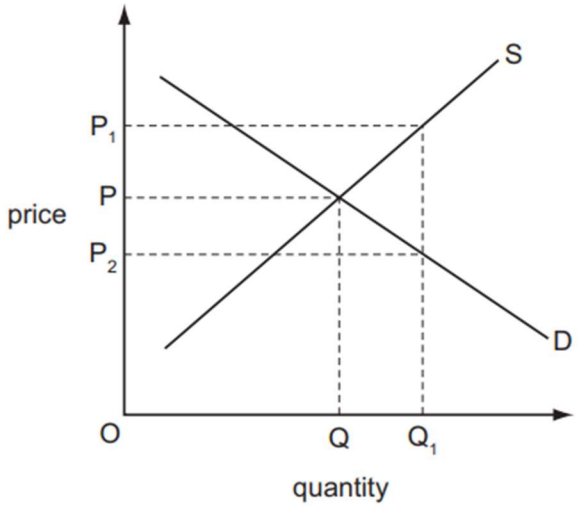
The diagrams show a change in demand from D_1 to D_2 and a change in supply from S_1 to S_2 for four different goods.

Which diagram illustrates the good for which additional new uses have been found and which receives an increase in government subsidy?



20) 9708/s12/13/Q10

The diagram shows the equilibrium price (OP) and quantity (OQ) in the market for maize.



The government wants to achieve a target price of OP_1.

What will be the outcome if the government enters the market and increases the demand by $Q\text{-}Q_1$?

A The original equilibrium price will continue to operate.

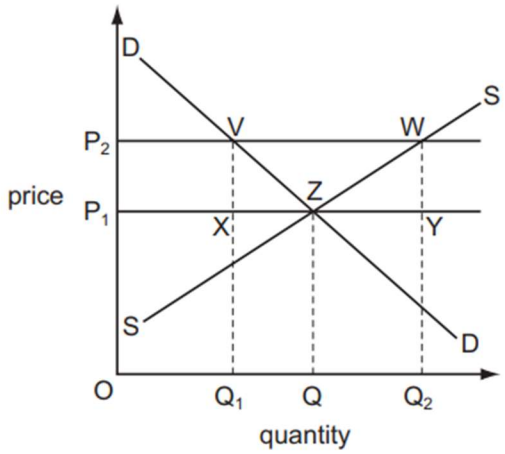
B The equilibrium price will be at the target price.

C The equilibrium price will be OP_2.

D The equilibrium price will be between the target price and the original equilibrium price.

21) 9708/s12/13/Q18

The diagram shows the market for apples. A government maintains a minimum price P_2 by buying apples.

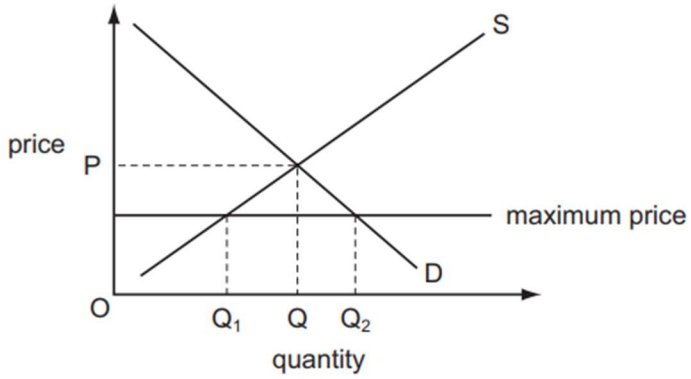


Which area shows the amount of money the government has to spend to maintain the price P_2?

A P_2WYP_1 **B** P_2VQ_1O **C** P_2WQ_2O **D** VWQ_2Q_1

22) 9708/w12/11/Q13

The diagram shows a market subject to a maximum price.



What will happen if the maximum price is removed?

A There will be allocation by a queuing system.

B There will be allocation by government rationing.

C There will be allocation by seller's preference.

D There will be allocation by the price system.

23) 9708/w12/11/Q15

A government carries out a cost-benefit analysis to determine whether to build a new airport.

In which circumstance will it proceed with the project?

A when external benefit exceeds external cost

B when private benefit exceeds private cost

C when there is a net private benefit

D when there is a net social benefit

24) 9708/w12/11/Q17

A government wishes to encourage the consumption of a merit good and reduce the consumption of a demerit good.

Which policy should it adopt towards each good?

	merit good	demerit good
A	confine access to certain age groups	tax output
B	increase advertising on the benefits of the good	set a minimum level of output
C	subsidise the good	put legal controls on output
D	tax the good	produce only in the public sector

25) 9708/w12/12/Q16

The table shows some of the costs and benefits, in $ millions, associated with a road building project. Both a government department and a profit-maximising private firm are considering building the road.

private costs	external costs	external benefits	social benefits
450	75	50	550

Who would be willing to build the road?

A Both would be willing to build it.

B Neither would be willing to build it.

C Only the government department would be willing to build it.

D Only the private firm would be willing to build it.

26) 9708/w12/12/Q17

A government wishes to raise the incomes of farmers without raising the price of food to consumers.

Which policy should it use?

A a maximum price below the market price for food

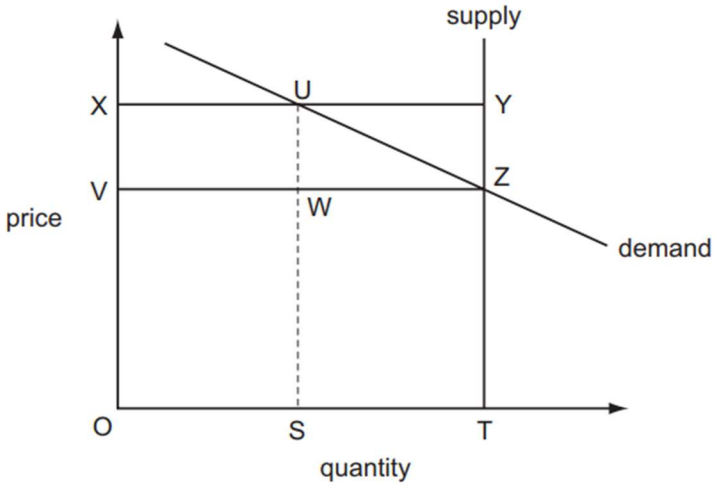
B a minimum price below the market price for food

C a payment of a subsidy to farmers to produce food

D a release of government food stocks onto the market

27) 9708/w12/12/Q18

The diagram shows the market supply and demand curves for an agricultural product. The government guarantees producers a minimum price of OX for their output, but allows the market price to be freely determined by demand and supply.



Which area in the diagram represents the total subsidy payments made by the government to producers?

A UYTS **B** UYZW **C** XUWV **D** XYZV

28) 9708/w12/13/Q7

A government wishes to impose a tax on a good so that the producer and not the consumer pays most of the tax.

Which type of elasticity would it be best for the good to have to achieve this aim?

A high price elasticity of demand

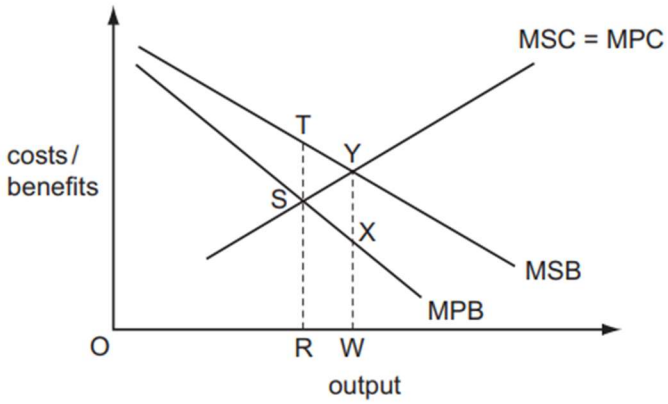
B low price elasticity of demand

C totally inelastic price elasticity of demand

D unitary price elasticity of demand

29) 9708/w12/13/Q14

A government is planning to intervene in a market to fix output at the socially desirable level by giving a subsidy.



To achieve its objective, what should be the subsidy per unit?

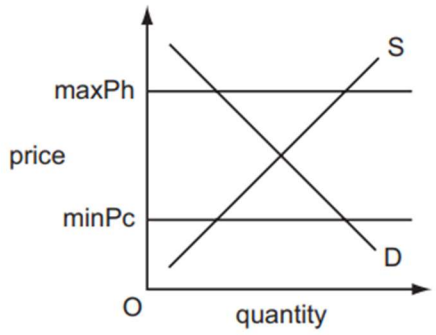
A ST **B** SX **C** TY **D** XY

30) 9708/w12/13/Q18

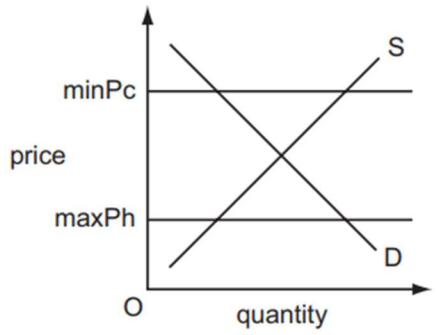
A government introduces a maximum price for house rentals (maxPh) and a minimum price for cleaning services (minPc). Both markets have identical demand and supply curves.

Which diagram shows that the maximum price will be effective and the minimum price will be ineffective in the respective markets?

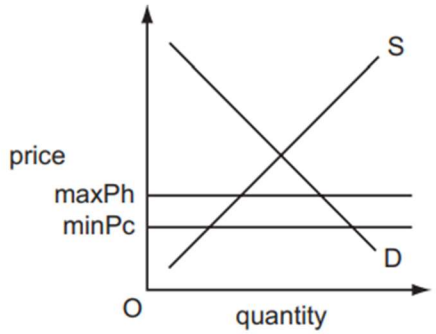
A



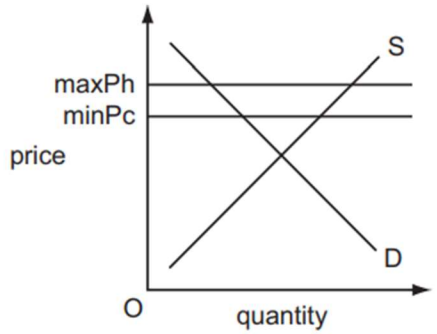
B



C



D



31) 9708/s13/11/Q17

A government fixes a maximum price for a product in order to increase its consumption.

What would be the likely outcome of such a policy?

A Consumption will fall if the maximum price is above the current equilibrium price.

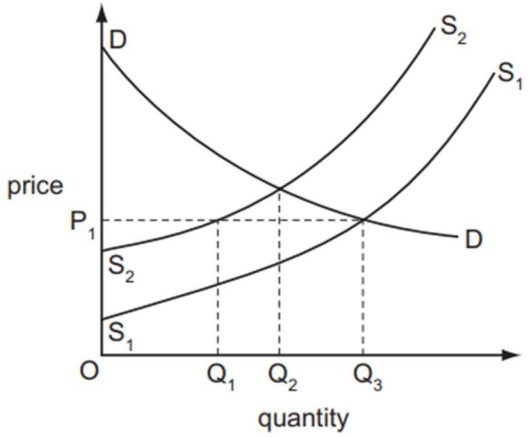
B Consumption will rise if the maximum price is below the current equilibrium price.

C Production will fall if the maximum price is above the current equilibrium price.

D Production will fall if the maximum price is below the current equilibrium price.

32) 9708/s13/11/Q18

In the diagram, S_1S_1 and DD represent the original supply and demand curves for an agricultural product.



Bad weather then reduces supply to S_2S_2.

How much of the product will the government have to supply from stocks if it wishes to keep the price at OP_1?

A OQ_3 **B** Q_1Q_3 **C** Q_1Q_2 **D** Q_2Q_3

33) 9708/s13/12/Q11

A country's government announces that the penalties imposed on those found guilty of supplying an illegal drug to others are to be increased but that possession of small quantities of the drug for an individual's own use will no longer be illegal.

What effect are these changes likely to have on the illegal market price of that drug and on the quantity consumed?

	illegal market price	quantity consumed
A	increase	decrease
B	increase	uncertain
C	uncertain	decrease
D	uncertain	uncertain

34) 9708/s13/12/Q15

A government decided to approve a private airport-building scheme because it was socially beneficial. In making its decision it calculated private costs at $700 m, private benefits at $800 m and external costs at $200 m.

What must have been true about the external benefits of the scheme?

A External benefits equalled private benefits.

B External benefits exceeded external costs.

C External benefits exceeded $100 m.

D There were no external benefits.

35) 9708/s13/12/Q17

Which type of government intervention runs the risk of causing shortages?

A maximum price controls

B specific indirect taxes

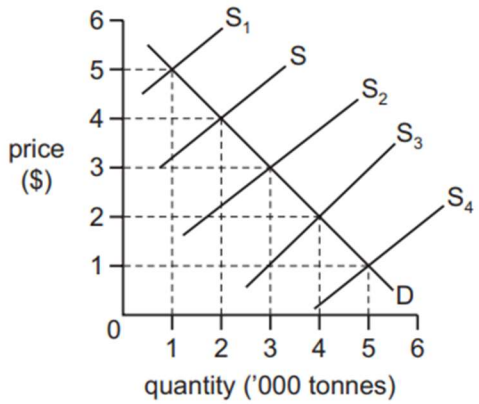
C subsidies paid to some producers

D taxes on company profits

36) 9708/s13/12/Q18

In the diagram, D is the demand curve of an agricultural commodity and S is the initial supply curve.

The government promises to maintain farmers' incomes at least at this initial level. The harvests in four subsequent years are shown by supply curves S_1 – S_4.



In which years will the government need to provide extra income to farmers?

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

37) 9708/s13/13/Q14

The table below shows the results of a government survey into the economic effects of the use of chewing gum in a country.

	US $ million
private cost	300
social cost	400
private benefit	350
social benefit	450

What is the net external benefit of chewing gum to the economy?

A US $0 million

B US $50 million

C US $100 million

D US $800 million

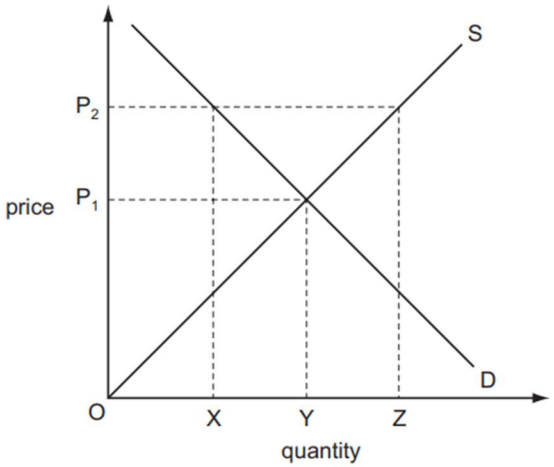
38) 9708/s13/13/Q16

The government buys more speed cameras from the manufacturer. What would be included among the external benefits of increasing the number of speed cameras on a country's roads?

	additional jobs in camera production	additional government revenue from fines on motorists	a reduction in road accidents	a reduction in fuel consumption
A	no	no	yes	yes
B	no	yes	yes	no
C	yes	no	no	yes
D	yes	yes	no	no

39) 9708/s13/13/Q18

The diagram shows the market for wheat.



If the government wishes to fix the price at OP_2 what quantity of wheat must the government buy?

A OZ **B** XY **C** XZ **D** YZ

40) 9708/w13/11/Q18

The government is considering building flood defences along a river. It has calculated the costs and benefits as follows.

	costs $m	benefits $m
private	450	260
external	60	190

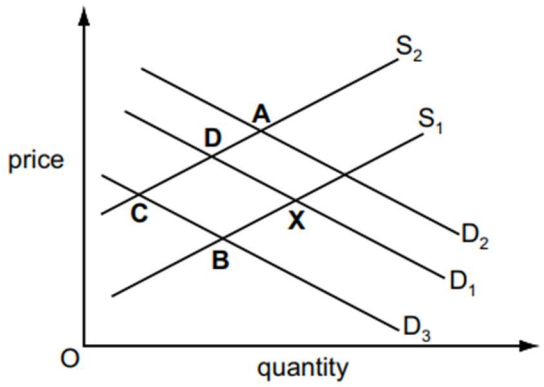
According to cost-benefit analysis, which decision and reasoning about flood defences is correct?

	decision	reasoning
A	build	external benefits are greater than external costs
B	build	social benefits are greater than private benefits
C	do not build	private costs are greater than the external benefits
D	do not build	social costs are greater than the social benefits

41) 9708/w13/12/Q9

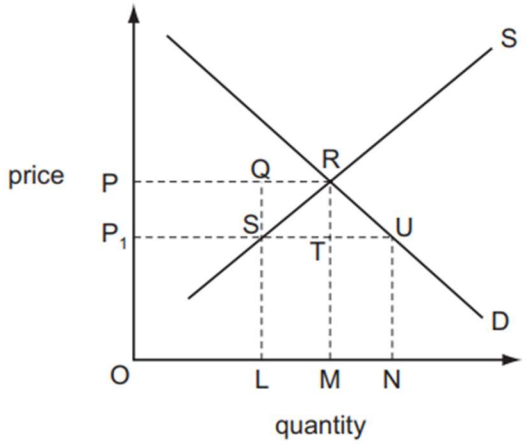
The diagram shows the demand and supply curves for tractors. The present equilibrium point is at X.

What could be the new equilibrium if the government were to tax the country's tractor manufacturers?



42) 9708/w13/12/Q11

The diagram shows the market for sugar which is in equilibrium at a price of OP.



A government then fixes a maximum price of OP_1.

What will happen as a result?

A an increase in consumer surplus equal to $PRUP_1$

B a reduction in expenditure by people who still buy sugar equal to $PQSP_1$

C a reduction in farmers' receipts equal to QRML

D farmers' receipts would be PQLO

43) 9708/w13/12/Q17

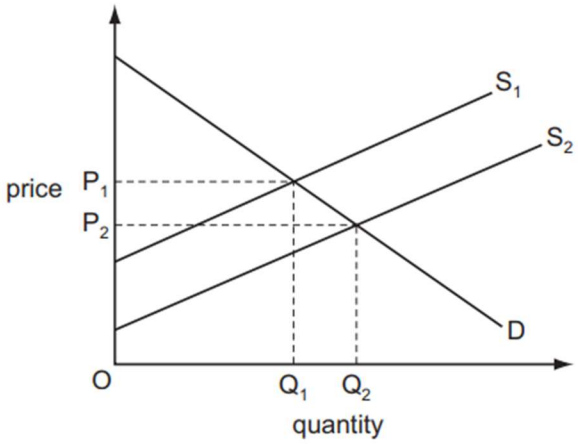
A government introduces a subsidy to reduce the price of heating oil, maximum rents for apartments and a national minimum wage rate.

Who is meant to benefit from each of these?

	heating oil market	apartment market	labour market
A	consumers	landlords	employers
B	consumers	tenants	workers
C	producers	landlords	workers
D	producers	tenants	employers

44) 9708/w13/12/Q18

In the diagram, D is the demand curve for a commodity. S_1 and S_2 are the supply curves before and after an intervention by the government.



What action has the government taken?

A It has given producers a subsidy to encourage greater output.

B It has given a subsidy to consumers.

C It has imposed a tax equal to $P_1 - P_2$ to discourage production.

D It has purchased a quantity $Q_2 - Q_1$ for government use.

45) 9708/w13/13/Q10

The table shows the demand and supply schedules for a good before and after the imposition of a tax.

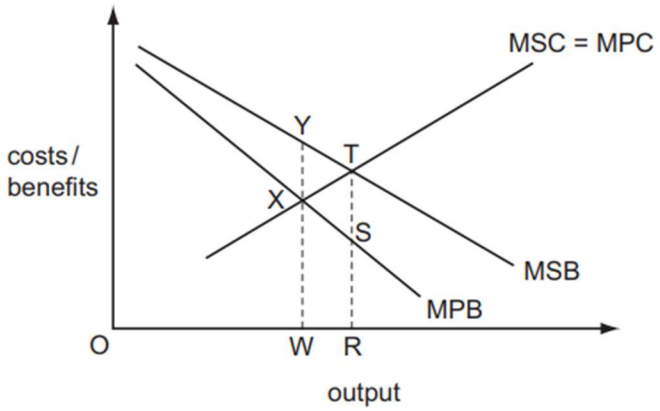
price ($)	quantity demanded	quantity supplied before tax	quantity supplied after tax
20	340	440	380
19	340	430	340
18	340	410	290
17	340	380	230
16	340	340	160
15	340	290	80
14	340	230	0

What was the amount of the tax revenue raised for the government?

A $1020 **B** $1360 **C** $5440 **D** $6460

46) 9708/w13/13/Q14

A government is planning to intervene in a free market to fix output at the currently economically desirable level.



To achieve its objective, what should the government introduce?

A a subsidy of TS

B a subsidy of YX

C a tax of TS

D a tax of YX

47) 9708/w13/13/Q17

Which pair of government actions are intended to directly benefit suppliers?

A government provision of consumer goods and maximum price laws

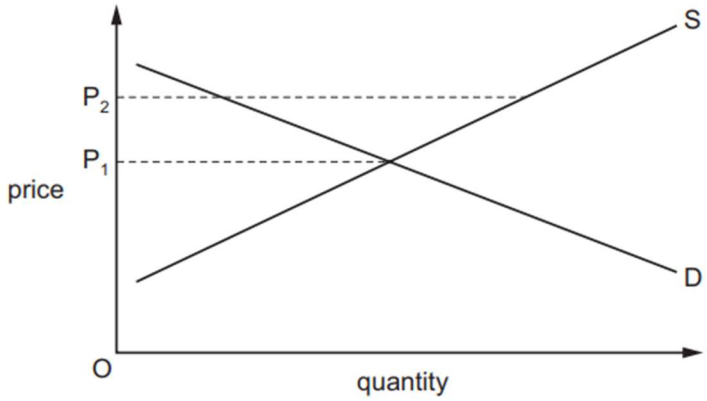
B maximum price laws and price stabilisation policies

C price stabilisation policies and indirect taxes

D production subsidies and minimum price laws

48) 9708/s14/11/Q18

The diagram shows the original market clearing price is P_1. The government then imposes a maximum price of P_2 on the industry.



What will result from this?

A a higher price and output

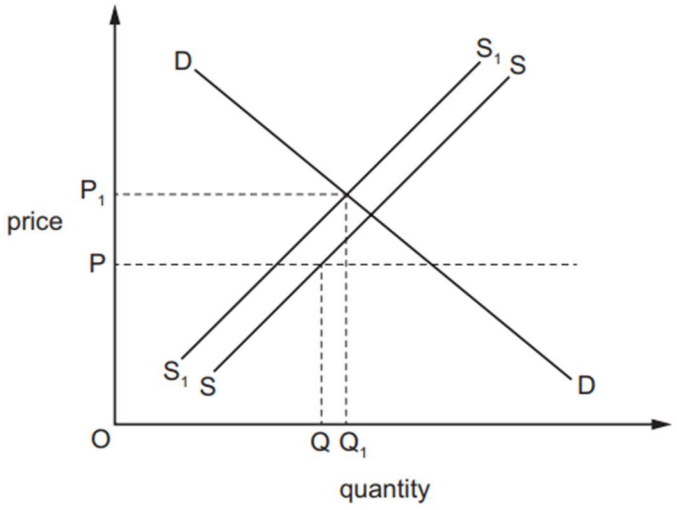
B a shortage

C a surplus

D an unchanged price and output

49) 9708/s14/12/Q18

In the diagram, the initial quantity traded was Q and the price was P.



The price then rose to P_1 and the quantity traded rose to Q_1.

Which combination of government policy measures could explain this change?

A the removal of a maximum price and the imposition of an income tax on consumers

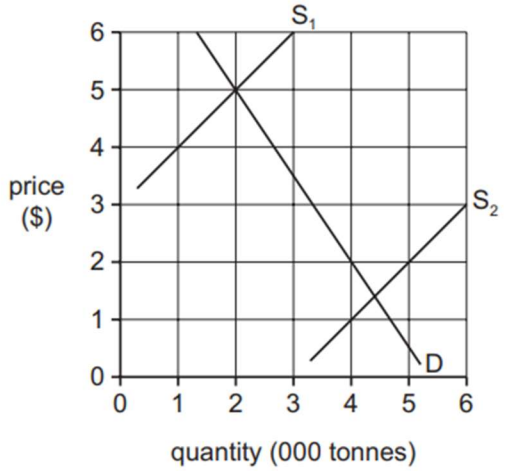
B the removal of a maximum price and the removal of a subsidy to producers

C the removal of a minimum price and the granting of a subsidy to producers

D the removal of a minimum price and the imposition of an indirect tax on the product

50) 9708/s14/13/Q18

In the diagram, D is the demand curve of an agricultural commodity and S_1 is the initial supply curve.



The government introduces a buffer scheme to maintain farm incomes at their initial level.

What quantity would the government need to buy from the farmers to add to the buffer stock if a bumper harvest causes the supply curve to move to S_2?

A 1000 tonnes

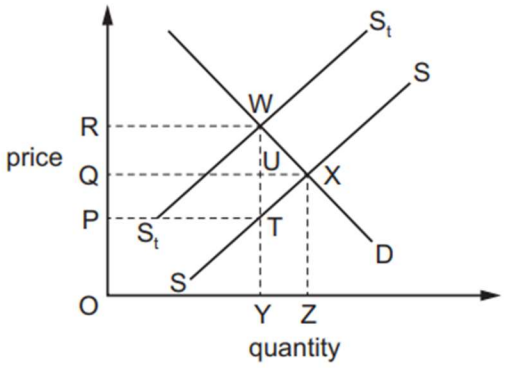
B 2000 tonnes

C 3000 tonnes

D 4000 tonnes

51) 9708/w14/11/Q9

A specific tax is placed upon each bottle of perfume sold. In the diagram, SS is the supply curve before tax and S_tS_t is the supply curve after tax.

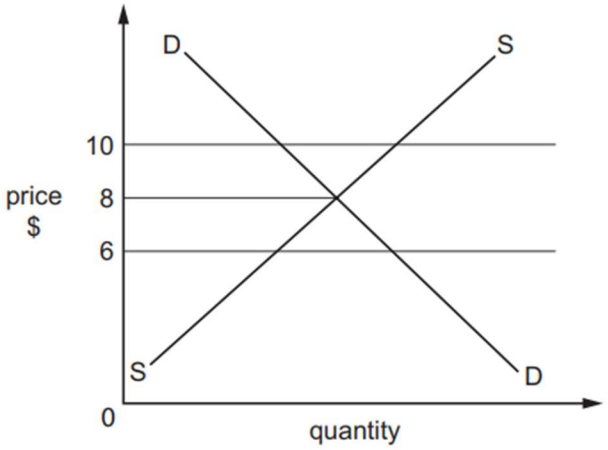


Which area represents the revenue received by the government from the tax?

A ORWY **B** PQUT **C** PRWT **D** QRWU

52) 9708/w14/11/Q18

In moving towards a market economy government price controls were removed. In the diagram below, the government initially set an effective maximum price.

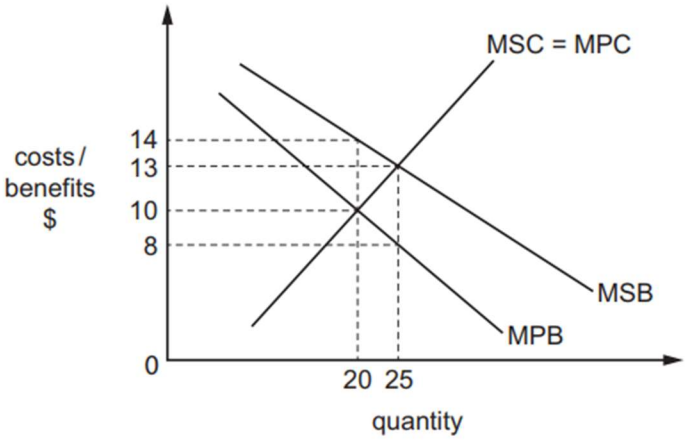


What effect was there on price and quantity when the government removed the maximum price?

	price	quantity
A	falls from $10 to $8	removes shortage
B	falls from $10 to $8	removes surplus
C	rises from $6 to $8	removes shortage
D	rises from $6 to $8	removes surplus

53) 9708/w14/12/Q15

The diagram shows the private and social costs and benefits that arise from the consumption and production of a good.

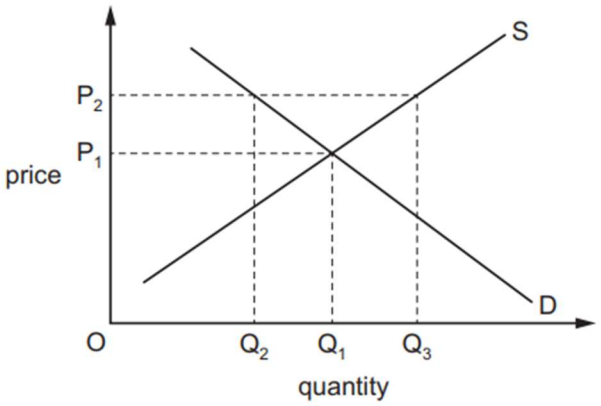


If there is no government intervention, what is the value of the marginal external benefit?

A $2 **B** $3 **C** $4 **D** $6

54) 9708/w14/12/Q18

The government imposes a maximum price of P_2 on a product.



What will be the position after this action?

A an equilibrium with price P_1 and quantity Q_1

B an equilibrium with price P_2 and a quantity between Q_2 and Q_3

C an oversupply in the market by Q_2Q_3

D a shortage in the market of Q_2Q_3

55) 9708/w14/13/Q15

Which statement about the provision of goods is correct?

A Governments and private producers supply merit goods.

B Governments and private producers supply public goods.

C Governments are unable to supply private goods.

D Governments subsidise the production of demerit goods.

56) 9708/w14/13/Q17

The table shows demand and supply schedules for a product. The government then subsidises the product because it provides external benefits.

price ($)	quantity demanded (units)	quantity supplied before subsidy (units)	quantity supplied after subsidy (units)
10	160	80	120
11	140	100	140
12	120	120	160
13	100	140	180
14	80	160	200

By how much does the subsidy increase consumption of the product?

A 20 units **B** 40 units **C** 120 units **D** 140 units

57) 9708/s15/11/Q13

What is an economic reason why hospitals are often built and funded by the government?

A Hospitals are a public good.

B Hospitals are very expensive to build and run.

C Hospitals cannot use price to allocate demand.

D Hospital treatments may benefit many apart from those who use them.

58) 9708/s15/11/Q16

A government is considering building a high-speed rail link.

Why would it **not** proceed with the project?

A The external benefit is greater than the external cost.

B The private cost is greater than the private benefit.

C The social benefit is greater than the social cost.

D The social cost is greater than the social benefit.

59) 9708/s15/11/Q17

The production of a product generates a negative externality that increases as output rises.

Which form of government intervention in the market is most suitable to tackle this externality?

A a direct income tax

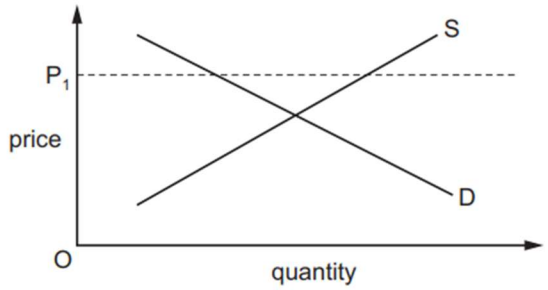
B a specific indirect tax

C a subsidy

D an ad valorem indirect tax

60) 9708/s15/11/Q18

The government places a maximum price P_1 on an agricultural product. The supply and demand conditions for this product are shown in the diagram.



What will be the outcome in the market for this product?

A There will be an equilibrium price and output.

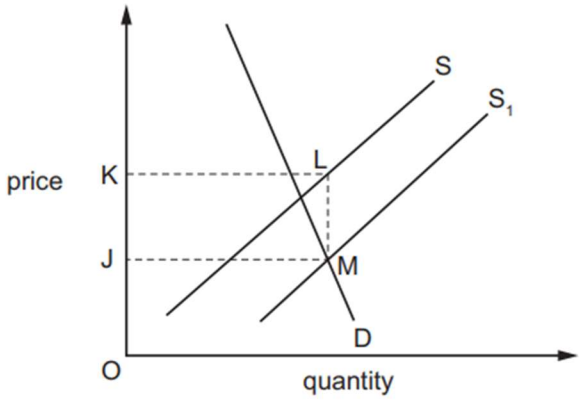
B There will be a surplus of the product.

C There will be higher than expected profits.

D There will be shortages of the product.

61) 9708/s15/12/Q9

The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S to S_1.



What does the area JKLM represent?

A the cost to the government of a subsidy to rice growers

B the extra saving to importers of the removal of a tariff on rice

C the increase in consumer surplus from the introduction of a maximum price for rice

D the loss in government revenue from the reduction in a lump sum tax on rice

62) 9708/s15/13/Q16

A government conducts a cost-benefit analysis into the construction of a new high-speed railway network. The analysis reveals the following information.

	US$ billion
private benefits	120
external benefits	40
private costs	100

If it is to build the railway network, the government requires that the net social benefit is more than US$20 billion.

What must the external costs be to satisfy the government?

A under US$40 billion

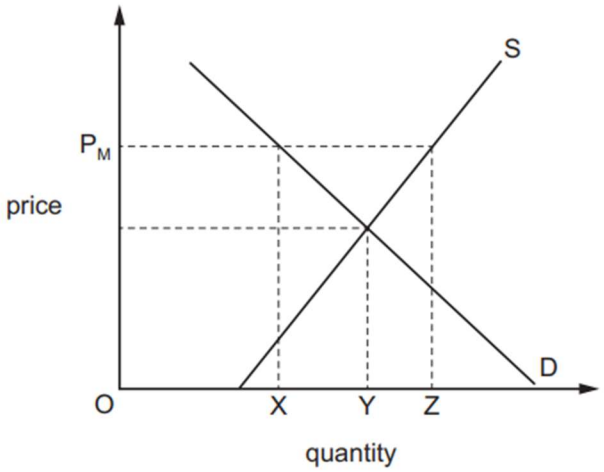
B over US$40 billion but below US$60 billion

C over US$60 billion but below US$160 billion

D over US$160 billion

63) 9708/s15/13/Q18

The diagram shows the demand and supply curves of a good.



If the government sets a maximum price of OP_M, what will be the quantity bought by consumers and the quantity supplied by producers?

	quantity bought by consumers	quantity supplied by producers
A	OX	OX
B	OX	OZ
C	OY	OY
D	OY	OZ

64) 9708/w15/11/Q11

The table shows demand and supply schedules for red peppers. The equilibrium price is initially 15 cents per kilogram (kg).

price per kg cents	amount demanded kg (thousands)	amount supplied kg (thousands)
30	11	22
25	12	19
20	13	17
15	15	15
10	17	13
5	20	11

The government pays a subsidy of 10 cents per kg to producers.

What will be the new equilibrium price?

A 5 cents **B** 10 cents **C** 15 cents **D** 20 cents

65) 9708/w15/11/Q16

A government has sufficient funds to pay for two transport projects. It has to choose between four projects, all of which have the same social cost of $200 million. The table shows the benefits from the projects.

	project 1	project 2	project 3	project 4
private benefit ($ million)	100	110	120	150
external benefit ($ million)	120	100	90	80

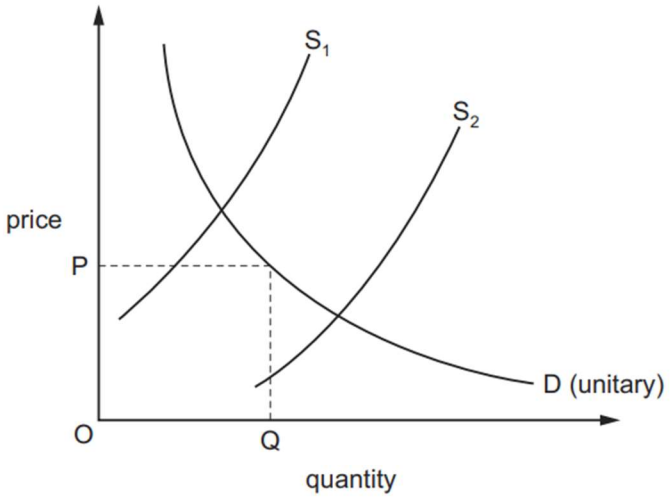
Which two projects would the government choose?

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

66) 9708/w15/11/Q18

The diagram shows the demand curve for an agricultural commodity that has unitary elasticity.

S_1 is the supply curve if there is a bad harvest and S_2 is the supply curve if there is a good harvest.



What should the government do to keep the total revenue of farmers the same?

A allow the price of the commodity to be determined by the market

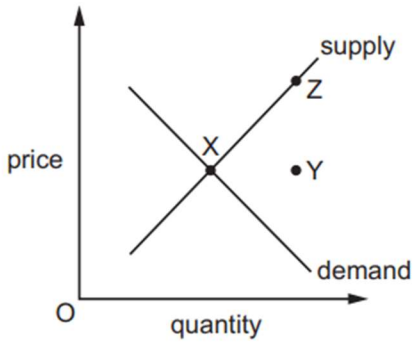
B fix the price paid to farmers at price OP

C introduce a quota on production equal to OQ

D provide subsidies in bad years and impose indirect taxes in good years

67) 9708/w15/12/Q18

The diagram shows the market for onions in equilibrium at point X. The government has a stock of onions and wants to establish a new equilibrium at point Y.



Which actions should the government take?

A It should buy an amount equal to XY and subsidise producers by a sum equal to YZ.

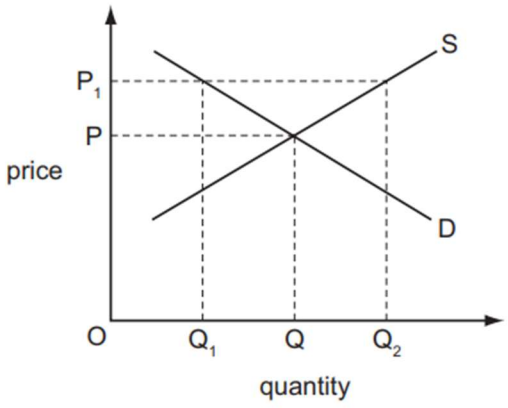
B It should buy an amount equal to XY and tax producers by a sum equal to YZ.

C It should sell an amount equal to XY and subsidise producers by a sum equal to YZ.

D It should sell an amount equal to XY and tax producers by a sum equal to YZ.

68) 9708/w15/13/Q13

The diagram shows the demand and supply curves for a good.



The government fixes a maximum price of OP_1.

What would happen?

A Consumers would have to be rationed to quantity OQ_1.

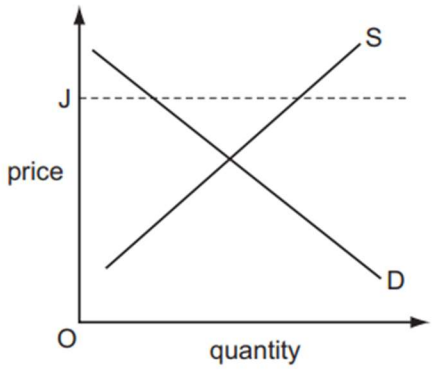
B The government would have to introduce a subsidy of PP_1.

C The market equilibrium quantity OQ would be demanded and supplied.

D The supply of quantity OQ_2 would be guaranteed.

69) 9708/w15/13/Q18

The diagram shows the demand and supply curves of a good.



The government sets a minimum price of OJ for the good.

How will this affect the producers and consumers of the good?

	effect on producers	effect on consumers
A	all producers will gain	consumers will lose
B	all producers will gain	consumers will gain
C	some producers will gain and some will lose	consumers will lose
D	some producers will gain and some will lose	consumers will gain

70) 9708/m16/12/Q13

A company opened a garden to the public and charged for entry. The government then provided a grant to improve the garden on the condition that entry became free.

What would result from the government's action?

A The consumer surplus would increase.

B The demand curve would shift to the left.

C The supply curve would be infinitely elastic.

D There would be no equilibrium position as the garden is free.

71) 9708/m16/12/Q16

In 2009 the Australian government made a payment of $900 to those who earned less than $100 000 per year.

How would the effect of this transfer payment be described?

A neutral

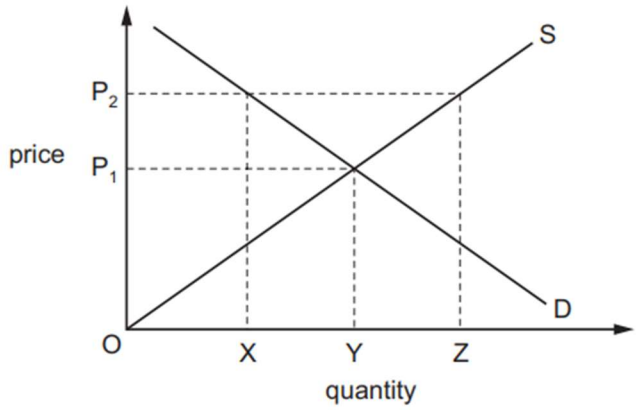
B progressive

C proportional

D regressive

72) 9708/m16/12/Q17

The diagram shows the market for wheat.



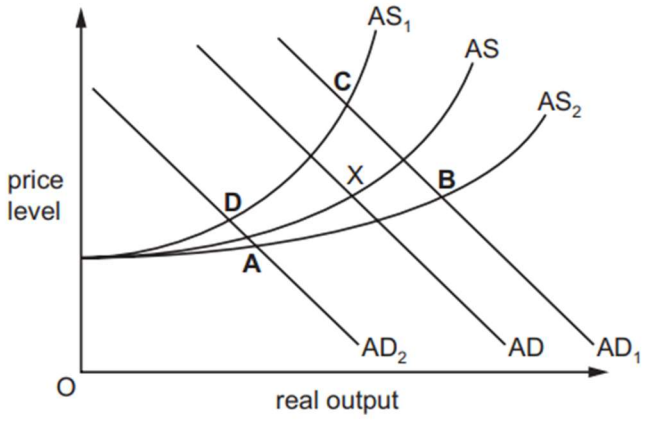
If the government wishes to fix the price at OP_2 what quantity of wheat must the government buy?

A OZ **B** XY **C** XZ **D** YZ

73) 9708/m16/12/Q19

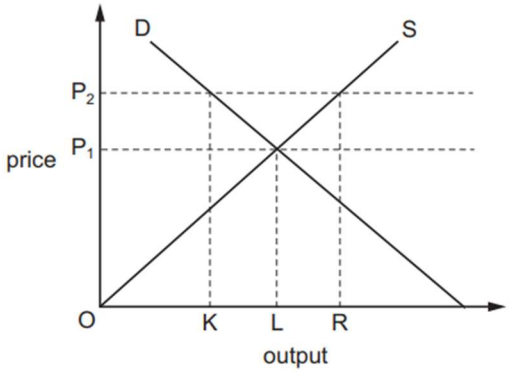
A government decided to reduce income tax and increase sales tax. The initial equilibrium point is shown by X on the aggregate demand (AD) and aggregate supply (AS) diagram.

What would be the equilibrium point after these tax changes?



74) 9708/s16/11/Q14

The diagram shows the market supply and demand curves for wheat.



What should a government do to maintain a minimum price of OP_2?

A buy quantity KL

B buy quantity KR

C sell quantity LR

D sell quantity KR

75) 9708/s16/11/Q15

A product with infinite elasticity of supply has sales of 1000 units a week at a price of $1 per unit.
Price elasticity of demand is 1.5 over the relevant range.

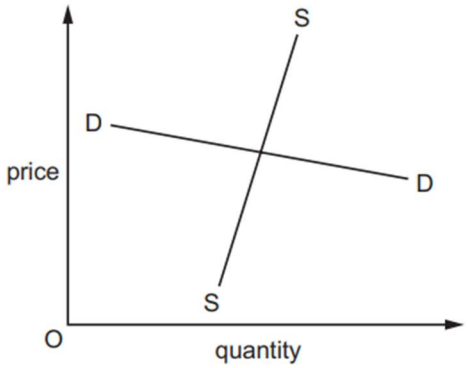
The government imposes a tax of 10%.

What will be the government's weekly tax revenue?

A $15 **B** $85 **C** $100 **D** $150

76) 9708/s16/12/Q12

The diagram shows the demand curve and supply curve for a good on which the government imposes a specific tax.



What will be the result of this tax?

A Most of the incidence of the tax will fall on the producer.

B There will be a new demand curve parallel to DD.

C The price will rise by the full amount of the tax.

D The quantity bought will fall proportionately to the tax rate.

77) 9708/s16/12/Q14

A government imposes a maximum rent in order to make rented housing more affordable.

What is likely to be a long-run consequence if the maximum is set below the current free market level?

A a shortage of applicants for rented housing

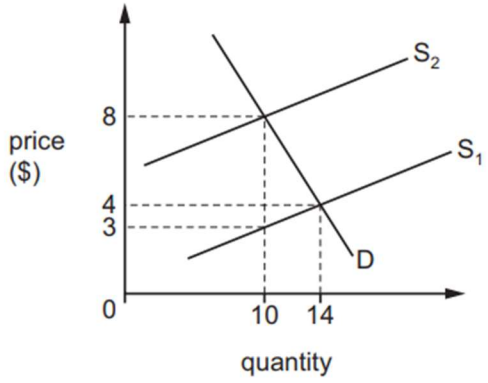
B a shortage of rented housing

C an increase in supply to satisfy the increased demand for rented housing

D an increase in the number of occupants of rented housing

78) 9708/s16/12/Q15

The diagram shows demand and supply curves for a good. S_1 is the original supply curve, S_2 is supply after a tax is added.



How much tax revenue is earned by the government?

A $10 **B** $40 **C** $50 **D** $80

79) 9708/s16/12/Q16

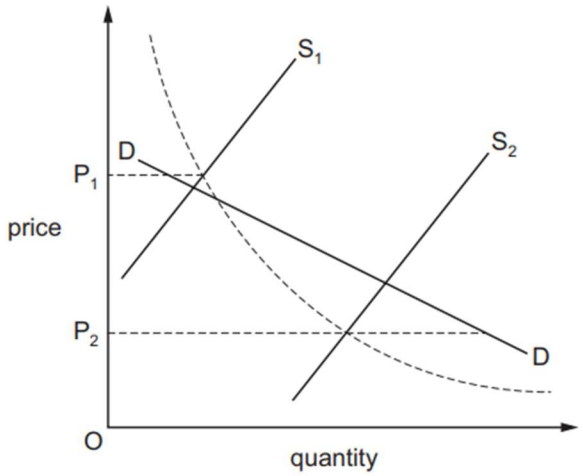
A country uses an income tax under which the first $10 000 of income is tax-free, the next $20 000 is taxed at 20% and any income over $30 000 is taxed at a top rate of 40%. It also levies a sales tax of 10% on most products, although some essential goods are exempt.

Which combination of tax changes is most likely to create a more equal distribution of income in the country?

	income tax	sales tax
A	a higher tax-free allowance	a higher rate of tax
B	a higher top rate of tax	a lower rate of tax
C	a lower tax-free allowance	a higher number of exempt goods
D	a lower top rate of tax	a lower number of exempt goods

80) 9708/s16/12/Q17

In the diagram, DD is the demand curve for an agricultural commodity, S_1 is the supply curve in period 1 and S_2 is the supply curve in period 2. The broken curve is a rectangular hyperbola.



The government operates a buffer stock scheme fixing the price at OP_1 in period 1 and OP_2 in period 2.

How do output and farm revenue in period 2 compare with period 1?

	output	farm revenue
A	higher	same
B	higher	higher
C	lower	higher
D	lower	same

81) 9708/s16/12/Q18

A government decides to privatise a nationalised company by transferring ownership directly to its managers and workers.

What is its most likely motive for this decision?

A to increase the amount of innovation

B to increase the level of competition

C to increase the level of incentive

D to increase the scale of production

82) 9708/s16/13/Q4

The provision of which service by governments could be explained by the concept of public goods?

A education

B health services

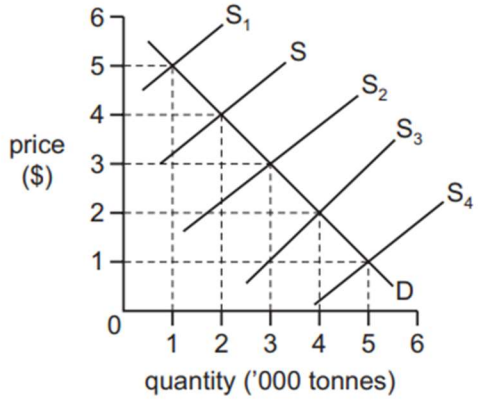
C law enforcement

D public libraries

83) 9708/s16/13/Q17

In the diagram, D is the demand curve of an agricultural commodity and S is the initial supply curve.

The government promises to maintain farmers' incomes at least at their initial level. The harvests in four subsequent years are shown by supply curves S_1 – S_4.

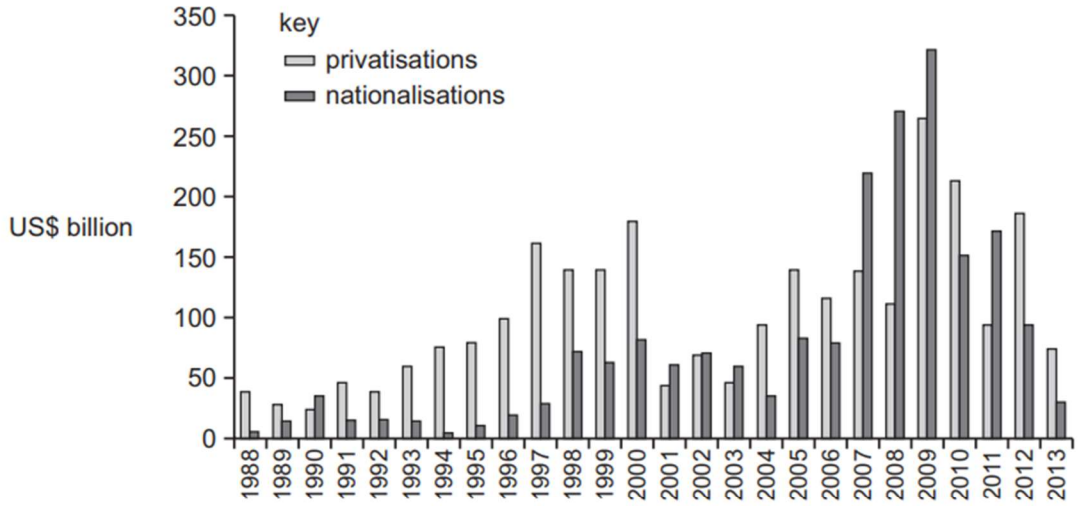


In which years will the government **not** need to provide extra income to farmers?

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

84) 9708/s16/13/Q18

Governments reduce their stock of assets by privatisation. They increase their stock of assets by nationalisations. The diagram shows global sales of state-owned assets and global state purchases of private stock between 1988 and 2013 in US$ billion.



What can be concluded from the diagram?

A By the end of the period the private sector owned more assets than the state sector.

B Over the period governments raised more revenue from privatisations than they spent on nationalisations.

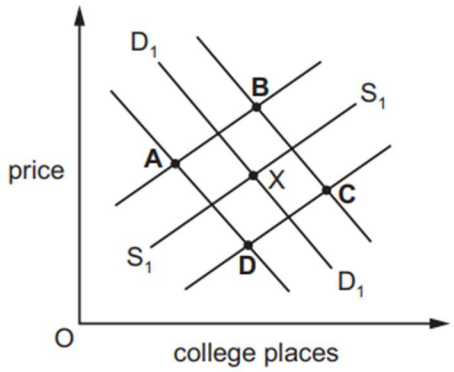
C The first year in which nationalisations exceeded privatisations was 2007.

D The greatest annual increase in government ownership of assets was in 2009.

85) 9708/w16/11/Q16

The diagram shows possible demand and supply curves for places in colleges in a country. The initial equilibrium position is X. To increase the number of students in colleges, a government subsidises the colleges and also gives a grant of money to the students.

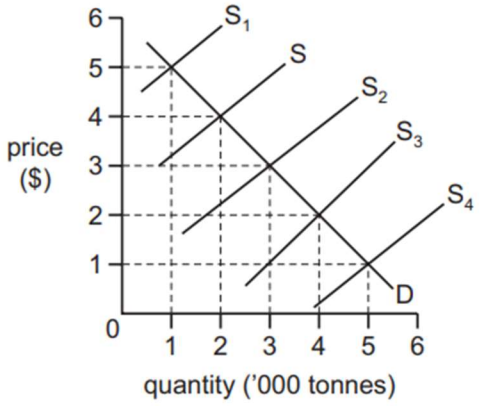
What would be the new equilibrium position?



86) 9708/w16/12/Q14

In the diagram, D is the demand curve of an agricultural commodity and S is the initial supply curve.

The government promises to maintain farmers' incomes at least at this initial level. The harvests in four subsequent years are shown by supply curves S_1–S_4.

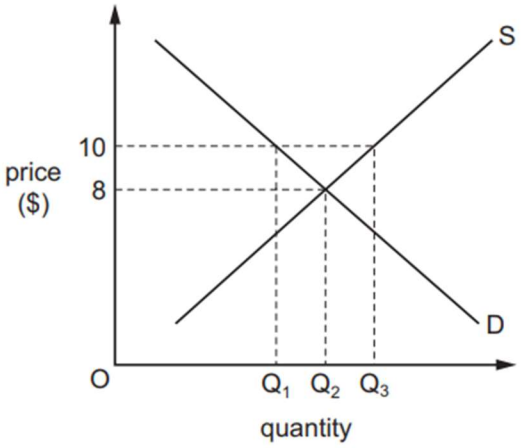


How much in total will the government pay to support farmers over the four subsequent years?

A $0 **B** $3000 **C** $6000 **D** $10 000

87) 9708/w16/13/Q14

The diagram shows the market demand and supply curves for rice.



What would happen if a government imposed a maximum price of $10?

A The government would need to supply Q_1 to Q_3.

B The quantity sold would be Q_1.

C The quantity sold would be Q_2.

D The quantity sold would increase from Q_2 to Q_3.

88) 9708/w16/13/Q17

Which goods will be provided only by the government?

A capital goods

B inferior goods

C merit goods

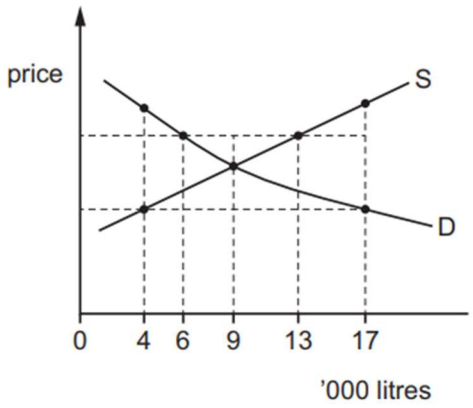
D public goods

89) 9708/m17/12/Q14

In 2014 some supermarkets reduced the price they were willing to pay farmers for milk to below what was then the market equilibrium price. They passed the lower price onto the consumers in order to try and encourage them into the store.

The government then fixed an effective minimum price which the supermarkets had to pay the farmers.

These two actions are shown in the diagram.



What would be the outcome after the supermarket action and then the government action?

	after supermarket action	after government action
A	a shortage of 5000 litres	a surplus of 4000 litres
B	a shortage of 5000 litres	a surplus of 7000 litres
C	a shortage of 13000 litres	a surplus of 4000 litres
D	a shortage of 13000 litres	a surplus of 7000 litres

90) 9708/m17/12/Q16

What is the most likely purpose of a government making transfer payments, such as social security benefits, to unemployed workers?

A to encourage a change in income distribution

B to increase the government's revenue

C to keep the principles of a free market economy

D to let all citizens enjoy identical living standards

91) 9708/s17/11/Q14

A government fixes a minimum price for a service.

What will be the outcome of such a policy?

A Demand will fall if the minimum price is below the equilibrium price.

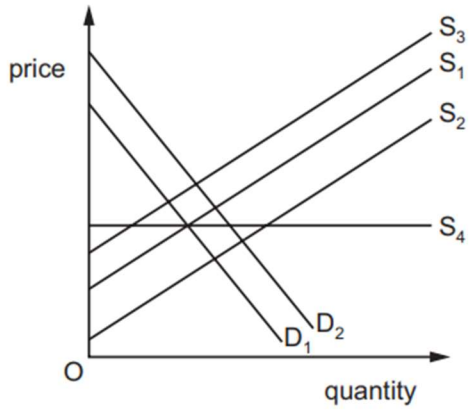
B Demand will rise if the minimum price is above the equilibrium price.

C Production will fall if the minimum price is above the equilibrium price.

D Production will stay the same if the minimum price is below the equilibrium price.

92) 9708/s17/11/Q16

The diagram shows the demand curve, D_1, and the supply curve, S_1, for a good.



The government decides to pay producers a specific subsidy for each unit supplied to the market.

Which curve shows the new effective demand or supply curve?

A D_2 **B** S_2 **C** S_3 **D** S_4

93) 9708/s17/11/Q17

Planned government expenditure for the UK in the fiscal year 2016 is estimated at £760 billion. The top five areas of expenditure are given in the table.

	£ billion
pensions	153
healthcare	138
welfare	111
education	89
defence	45
total top five	536

What is the total amount spent on transfer payments shown in the table?

A £89 billion **B** £111 billion **C** £264 billion **D** £536 billion

94) 9708/s17/11/Q18

What is likely to occur when the government privatises public sector monopolies?

A Consumer choice will increase.

B Employment will increase in the short run.

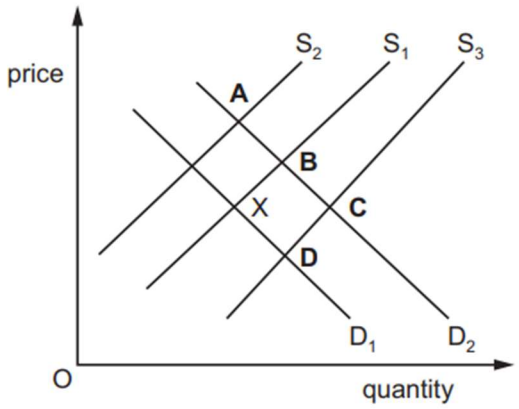
C Innovation will be discouraged.

D The production of public goods will increase.

95) 9708/s17/12/Q15

A market is in equilibrium at point X. The government then subsidises both consumers and producers by direct payments.

What will be the new equilibrium position?



96) 9708/s17/12/Q17

What is an example of direct public provision of goods and services?

A a charity hospital funded by public donations that offers free treatment to the rural poor

B a mobile government library that travels to rural villages offering access to books

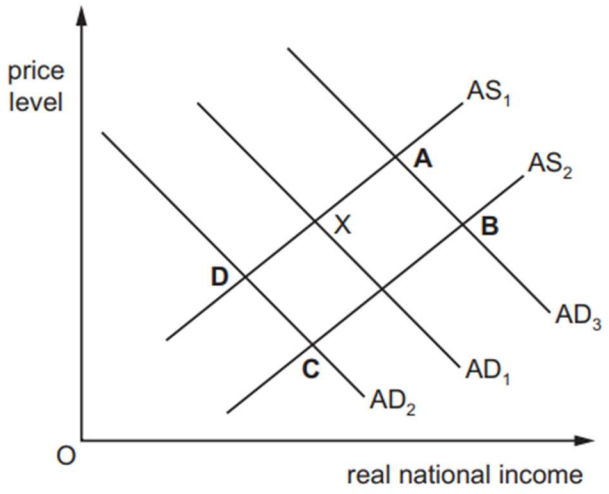
C a pharmacy in a local shopping centre that provides treatment direct to the public

D a private school that offers free places to children of low income families

97) 9708/s17/12/Q28

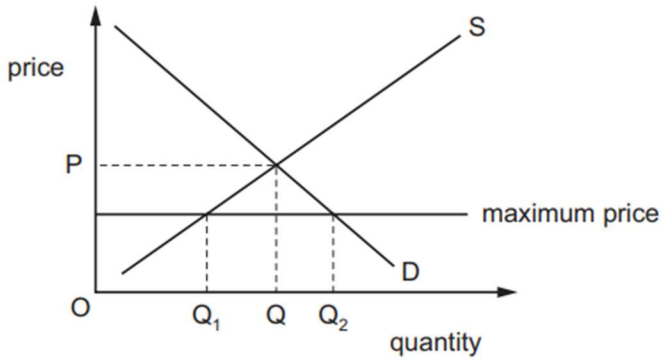
The government of a country plans to raise income tax rates. The initial equilibrium for the country is represented by point X on the diagram.

Which new equilibrium point would an economist predict as the result?



98) 9708/s17/13/Q14

The diagram shows a market subject to a maximum price.



What will happen if the maximum price is removed?

A There will be allocation by a queuing system.

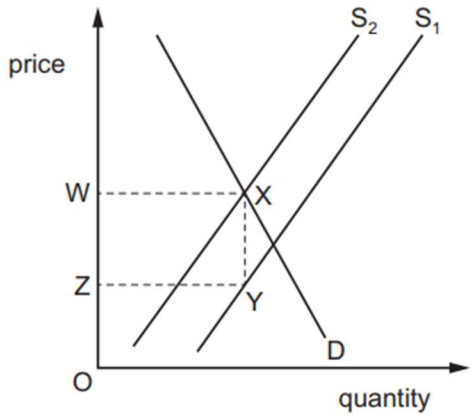
B There will be allocation by government rationing.

C There will be allocation by seller's preference.

D There will be allocation by the price system.

99) 9708/s17/13/Q15

The diagram illustrates the effect of a government action that shifts S_1 to S_2.



What does the area of the rectangle WXYZ represent?

A the consumer tax burden

B the government tax revenue

C the government subsidy payment

D the producer subsidy income

100) 9708/s17/13/Q16

The table shows the demand and supply schedules for a product before and after the government pays a subsidy of $4 per unit to the producers.

price ($)	quantity demanded (units)	quantity supplied before subsidy (units)	quantity supplied after subsidy (units)
6	140	60	100
8	120	80	120
10	100	100	140
12	80	120	160
14	60	140	180

What is the total government spending on the subsidy?

A $240 **B** $400 **C** $480 **D** $960

101) 9708/s17/13/Q17

Which government transaction is a transfer payment?

A a fee paid for a service supplied by government

B a payment to a private firm for goods supplied to the government

C a pension paid to a former government employee

D a salary payment to a government tax official

102) 9708/w17/11/Q15

What is an accurate statement about a production subsidy?

A It causes demand for the good to increase so the demand curve shifts to the right.

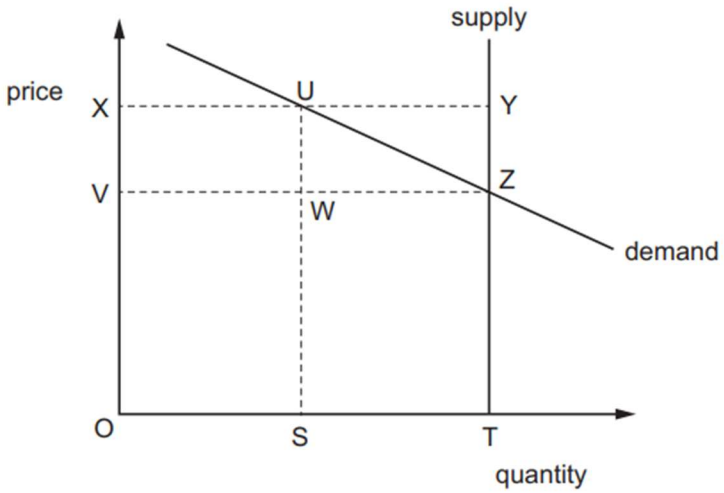
B It enables firms to supply more so the supply curve shifts to the left.

C It is financial assistance to firms from the government to help increase output.

D It is money taken from firms by the government to reduce harmful side effects of production.

103) 9708/w17/11/Q16

The diagram shows the market supply and demand curves for an agricultural product. The government guarantees producers a price of at least OX for their output, but allows the market price to be freely determined by demand and supply.



Which area in the diagram represents the total subsidy payments made by the government to producers?

A UYTS **B** UYZW **C** XUWV **D** XYZV

104) 9708/w17/12/Q14

After a series of poor harvests, a government imposes an effective maximum price on cereals.

What would be a consequence of this policy?

A Both rich and poor people would satisfy their demands equally.

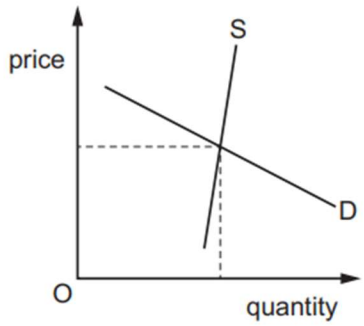
B Illegal buying and selling through a black market would be prevented.

C Rationing would be necessary to ensure a fair distribution of cereals.

D The market would fail to clear leaving a surplus of cereals.

105) 970/w17/12/Q16

The diagram shows the market for heating oil.



If the government introduces a production subsidy, how will the financial benefit be shared between consumers and producers?

A It will be shared equally between producer and consumer.

B It will go entirely to the producer.

C The majority will go to the consumer.

D The majority will go to the producer.

106) 9708/w17/12/Q18

Health services in an economy are provided by private clinics that charge high fees. The government decides health services should be provided for everyone, not based on ability to pay.

Which direct action should it take?

A Build government clinics to compete in the market.

B Close private clinics where provision by the market is inadequate.

C Increase the taxes on profits made by private clinics.

D Nationalise private clinics and remove charging.

107) 9708/w17/13/Q14

A government has introduced an effective maximum price on rice.

Which combination of changes must cause an existing shortage of rice to increase the most?

A a fall in the maximum price and a less price-elastic supply

B a fall in the maximum price and a more price-elastic supply

C a rise in the maximum price and a less price-elastic supply

D a rise in the maximum price and more price-elastic supply

108) 9708/w17/13/Q18

Which action by a government would **not** be regarded as a form of privatisation?

A the contracting out of the provision of public sector services to private sector firms

B the deregulation of public sector industries to allow the entry of private sector firms

C the payment of subsidies from the public sector to private sector firms

D the sale of shares in a public sector corporation to the private sector

109) 9708/m18/12/Q4

The Bureau of Alcohol, Tobacco, Firearms and Explosives is a branch of the United States Government which regulates markets.

What does its name imply is most likely to be its main responsibility?

A to prevent harm from demerit goods

B to provide subsidies for essential goods

C to raise revenue from goods in elastic demand

D to safeguard employment in manufacturing industry

110) 9708/m18/12/Q16

The table shows the demand and supply schedules for a product before and after the government pays a subsidy of $4 per unit to the producers.

price $	quantity demanded (units)	quantity supplied before subsidy (units)	quantity supplied after subsidy (units)
6	250	50	150
8	200	100	200
10	150	150	250
12	100	200	300
14	50	250	350

Assuming that any extra sales are to new consumers, how much do the original consumers of the product save as a result of the subsidy?

A $300 **B** $600 **C** $900 **D** $1500

111) 9708/318/12/Q18

What is the major problem associated with a government directly providing the correct amount of a public good?

A competition from private producers

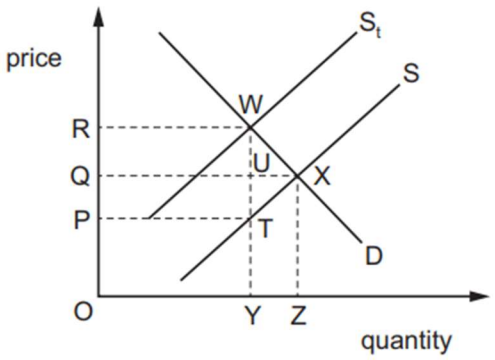
B estimation of demand

C increased trade diversion

D rivalry in consumption

112) 9708/s18/11/Q12

A specific tax is placed upon each bottle of perfume sold. In the diagram, S is the supply curve before tax and S_t is the supply curve after tax.

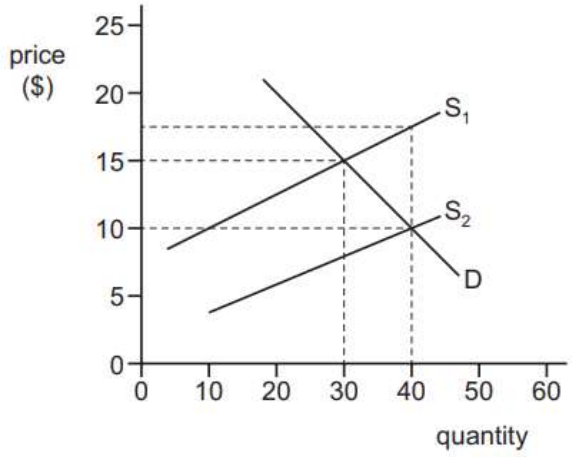


Which area represents the revenue received by the government from the tax?

A ORWY **B** PQUT **C** PRWT **D** QRWU

113) 9708/s18/11/Q15

The diagram shows the effect on the market for a product of the introduction of a government subsidy.



What is the result of the payment of the subsidy?

A Consumer surplus increases.

B The price to the consumer halves.

C The subsidy provides over half of producer income.

D Total consumer expenditure on the product increases.

114) 9708/s18/11/Q18

Which government action would be identified as the direct provision of goods and services?

A increasing road maintenance because of poor weather conditions

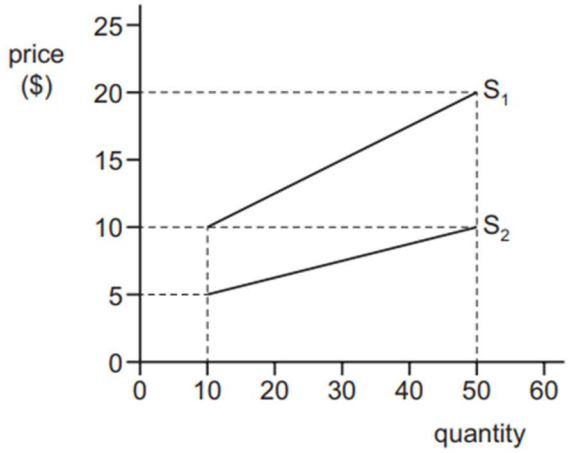
B making payments to low-income families with elderly dependants

C subsidising firms in order to encourage them to increase their output

D taxing firms because they have been emitting damaging fumes

115) 9708/s18/12/Q15

The diagram shows the effect on the supply curve of a product when the government provides a subsidy.



What can be concluded about the nature of the subsidy as the quantity supplied increases?

A It is a falling percentage (%) of the price of each unit.

B It is a fixed percentage (%) of the price of each unit.

C It is a fixed sum on each unit.

D It is a rising percentage (%) of the price of each unit.

116) 9708/s18/12/Q16

What is **not** an example of a transfer payment?

A pocket money from parents

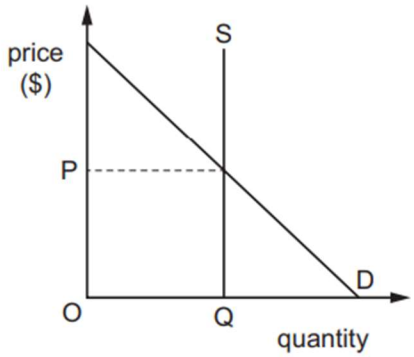
B private donations to charities

C salary paid to a teacher in a government school

D unemployment benefit

117) 9708/s18/12/Q17

In 2016–2017 a government spent $135 billion on the health service. The diagram shows the provision of healthcare in that country.



What can we deduce about healthcare provision in the country if it were provided at zero price?

A At price P the benefits to society are maximised.

B It is non-rival in consumption.

C It is unlimited in supply due to government funding.

D It will need rationing as it will be overconsumed.

118) 9708/s18/12/Q18

A government privatises the telecommunications industry.

What is least likely to increase?

A choice of telecommunications services for consumers

B development of new telecommunications products

C employment in the telecommunications industry

D productivity in the supply of telecommunications

119) 9708/s18/13/Q14

The demand and supply functions for a product are quantity demanded = 1500 + 50P and quantity supplied = 300P – 2000 where P = price. With government regulation, the current price in the market is $15.

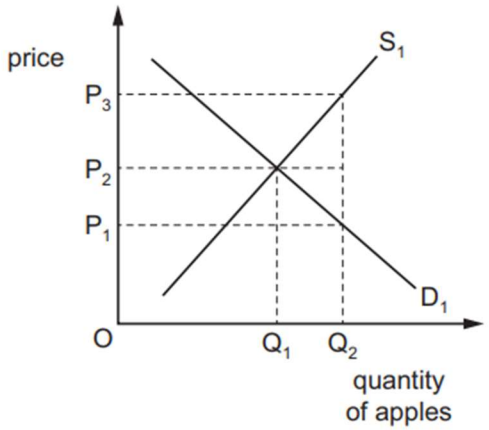
What can be concluded about the form of price regulation and the balance of demand and supply in the market?

	form of price regulation	balance of demand and supply
A	effective maximum price	excess demand
B	effective maximum price	excess supply
C	effective minimum price	excess demand
D	effective minimum price	excess supply

120) 9708/s18/13/Q16

A government decides to encourage apple consumption as a report states that eating apples is good for health. It subsidises apple growers.

The diagram shows the market for apples.



What would the subsidy need to be to change the market equilibrium quantity from Q_1 to Q_2?

A OP_1 **B** P_1P_2 **C** P_1P_3 **D** P_2P_3

121) 9708/s18/13/Q18

A government allows one firm to go out of business, takes over a second firm, and encourages a foreign government to invest heavily in a third firm.

Which government action has occurred?

	nationalisation	privatisation
A	✓	✓
B	✓	✗
C	✗	✓
D	✗	✗

key
✓ = occurred
✗ = not occurred

122) 9708/w18/11/Q9

The government fixes a minimum price for a product above the current equilibrium price.

Which value for the product's price elasticity of supply will result in the smallest excess supply in its market?

A between zero and one

B greater than one

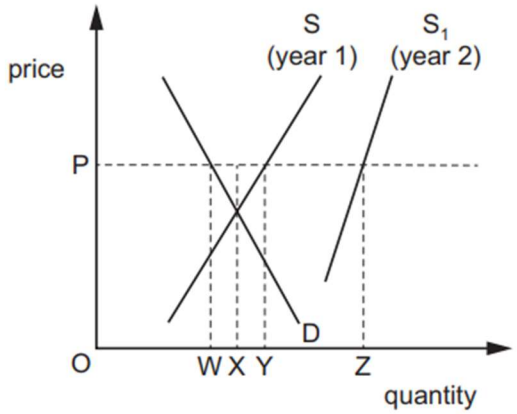
C one

D zero

123) 9708/w18/11/Q12

In the diagram S and S_1 are the supply curves for an agricultural product in years 1 and 2 respectively. D is the demand curve in years 1 and 2.

In year 1 the government purchased an amount necessary to ensure that the price was OP.



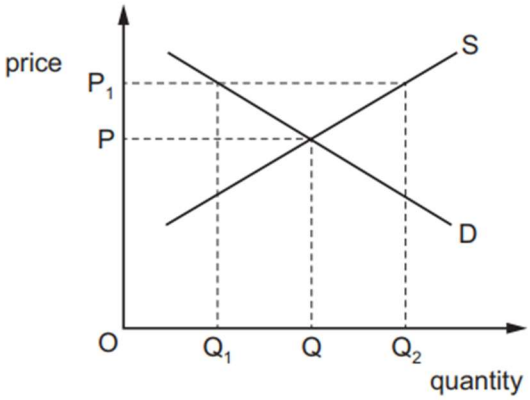
The price is held at OP in year 2.

How much more must the government buy in year 2 than it bought in year 1?

A WZ **B** XY **C** XZ **D** YZ

124) 9708/w18/11/Q14

The diagram shows the demand and supply curves for a good.



The government fixes a maximum price of OP_1.

What would happen?

A Consumers would have to be rationed to quantity OQ_1.

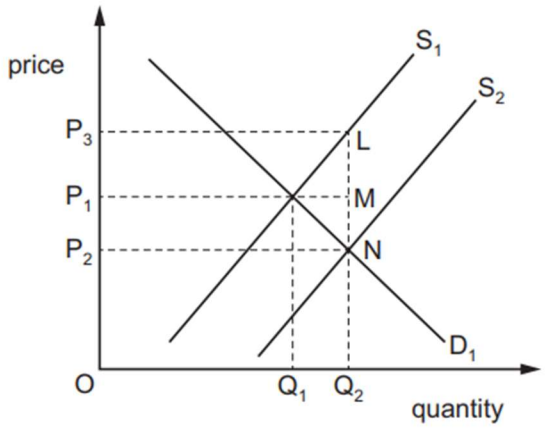
B The government would have to introduce a subsidy of PP_1.

C The market equilibrium quantity OQ would be demanded and supplied.

D The supply of quantity OQ_2 would be guaranteed.

125) 9708/w18/11/Q16

The diagram shows the equilibrium price, P_1, and quantity bought and sold, Q_1, in a market before a subsidy is granted.



What represents the producer incidence (benefit) after the subsidy is granted and what is government expenditure on the subsidy?

	producer incidence (benefit)	government expenditure
A	P_1P_2NM	P_1P_2NM
B	P_1P_2NM	P_3P_2NL
C	P_1P_3LM	P_1P_3LM
D	P_1P_3LM	P_3P_2NL

126) 9708/w18/11/Q14

The government fixes a maximum price for wheat flour below the market equilibrium price.

After the maximum price is imposed, which statement is **not** correct?

A Producers' revenue is increased.

B Some consumers may encourage illegal sales.

C The quantity supplied of flour will decrease.

D There will be an excess demand for flour.

127) 9708/w18/12/Q17

What is an aim of a transfer payment?

A It allows the government to alter the final distribution of income.

B It provides a ceiling for levels of income across the economy.

C It removes the need for state subsidies.

D It rewards the activity of a factor of production.

128) 9708/w18/12/Q18

There have been recent calls for the UK government to nationalise its railways.

What would **not** be a reason for nationalising the railways?

A Private rail companies often charge high ticket prices.

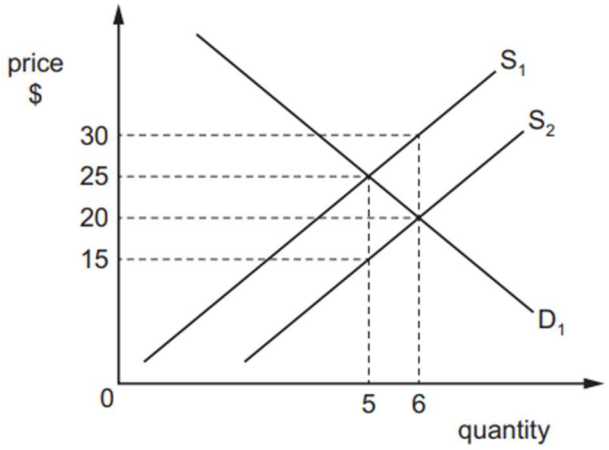
B Private rail companies may exploit monopoly power.

C Railways are an essential part of national infrastructure.

D Railways should be treated as a public good.

129) 9708/w18/13/Q15

The diagram shows the original demand curve D_1 and original supply curve S_1 for a good.



The government introduces a subsidy.

What will be the total consumer spending after the introduction of the subsidy?

A $75 **B** $120 **C** $125 **D** $180

130) 9708/w18/13/Q16

Which is a transfer payment?

A dividends paid to private shareholders

B income paid to civil servants

C pensions paid to retired people

D rent paid to landlords

131) 9708/w18/13/Q17

A flood-control dam is an example of a good provided directly by a government.

Which statement relating to the direct provision of a flood-control dam is **not** correct?

A Direct provision of a flood-control dam allows the government to tackle the failure to provide public goods.

B Direct provision of a flood-control dam forces the government to incur an opportunity cost.

C Direct provision of a flood-control dam involves the supply of a merit good.

D Direct provision of a flood-control dam is an example of government allocation of resources.

132) 9708/w18/13/Q14

A ……1…… price set below the market equilibrium will cause a ……2…… of the product, and a ……3…… price set above the market equilibrium will cause a ……4…… of the product.

Which words complete gaps 1, 2, 3 and 4?

	1	2	3	4
A	maximum	shortage	minimum	surplus
B	maximum	surplus	minimum	shortage
C	minimum	shortage	maximum	surplus
D	minimum	surplus	maximum	shortage

133) 9708/m19/12/Q14

A government wishes to raise the incomes of farmers without raising the price of food to consumers.

Which policy should it use?

A a maximum price below the market price for food

B a minimum price below the market price for food

C a payment of a subsidy to farmers to produce food

D a release of government food stocks onto the market

134) 9708/m19/12/Q16

Money is paid by the government to an unemployed worker in the form of a benefit.

Why is this called a transfer payment?

A The payment is from taxes paid by employed workers.

B The payment is made from government savings not current income.

C The payment is made without the production of goods and services taking place.

D The payment must be spent as directed by the government.

135) 9708/m19/12/Q18

A government is concerned that foreign-owned companies are responsible for a high proportion of the economy's output. Therefore it nationalises timber extraction, which is controlled by a foreign-owned company.

What benefit will the economy gain from the change in ownership?

A forestry workers will become the new owners

B profits will no longer be sent abroad to foreign shareholders

C social costs arising from forestry will be eliminated

D the market for timber will become more competitive

136) 9708/s19/11/Q15

An economy has a 20% housing shortage. The government builds 10% more houses for poorer families and fixes the rent below the equilibrium for the market.

Which effect will this direct provision have on the market?

A A greater imbalance in the market in private housing will develop.

B Housing waiting lists for poorer families will be cleared.

C The supply of government housing will fall short of demand.

D The supply of private housing for rent will fall by 10%.

137) 9708/s19/11/Q16

Which statement about nationalised and privatised industries is correct?

A A privatised industry is usually less competitive than a nationalised industry.

B A profitable private company cannot be nationalised.

C Privatisation is a form of monetary policy.

D Privatisation is a way of raising money for the government.

138) 9708/s19/11/Q17

What is **not** true about subsidies?

A They are paid to firms.

B They have to be paid back.

C They reduce the cost of production.

D They shift the supply curve to the right.

139) 9708/s19/11/Q18

What is **unlikely** to occur with an increase in the provision of public goods?

A consumer non-excludability

B improved use of resources

C opportunity cost

D reduction in tax

140) 9708/s19/12/Q4

What justifies government intervention in the provision of a merit good such as education?

A People who pay for education value it more than those who cannot pay.

B Private schools have more merit than state schools.

C Social costs of providing education outweigh social benefits of education.

D Some consumers do not fully recognise the value of education.

141) 9708/s19/12/Q16

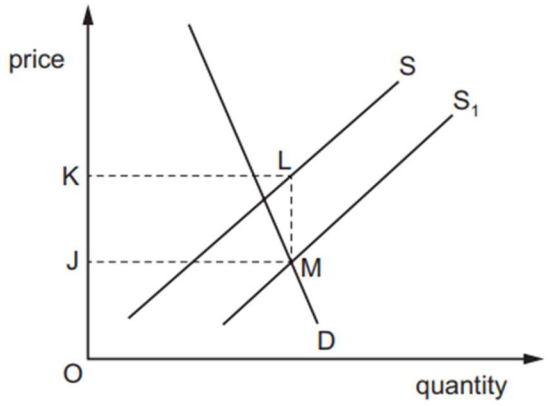
A government intends to introduce a minimum price for rice, a maximum price for heating oil and a tax on chewing gum.

Who, in each market, is meant to benefit from these policies?

	market for rice	market for heating oil	market for chewing gum
A	consumers	government	producers
B	government	producers	government
C	producers	producers	consumers
D	producers	consumers	government

142) 9708/s19/13/Q14

The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S to S_1.



What does the area JKLM represent?

A the cost to the government of a subsidy to rice growers

B the extra saving to importers of the removal of a tariff on rice

C the increase in consumer surplus from the introduction of a maximum price for rice

D the loss in government revenue from the reduction in a lump sum tax on rice

143) 9708/s19/13/Q16

Governments are trying to reduce the burden of transfer payments in economies with an ageing population.

Which policy would help to achieve this aim?

A introducing financial support for university students

B linking pension increases to the consumer price index during inflation

C raising the retirement age

D reducing state pensions to finance an equal rise in unemployment benefit

144) 9708/w19/11/Q5

The table shows the market demand and supply for bananas over a year. At a market price of 8 cents per kg there is disequilibrium in the market.

price of bananas (cents per kg)	total market demand (million tonnes)	total market supply (million tonnes)
4	1000	150
6	800	300
8	600	450
10	400	600
12	200	750

What action would the government have to take to achieve market equilibrium at a price of 8 cents per kg?

A grant a subsidy of 2 cents per kg to producers

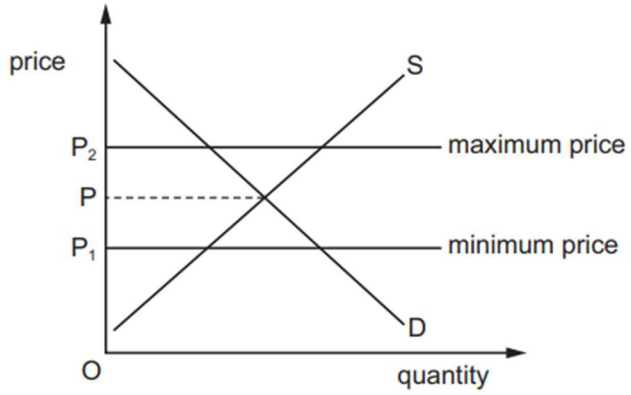
B impose a tax of 4 cents per kg on consumers

C purchase the entire supply at 8 cents and sell at 4 cents

D ration consumers to 75 kg each per year

145) 9708/w19/11/Q9

The diagram shows the market for a good.



If the government imposes a minimum price at OP_1 and maximum price at OP_2 what would happen?

A The price will be unchanged at OP.

B The price will fall to OP_1.

C The price will rise to OP_2.

D There will need to be rationing by the government.

146) 9708/w19/11/Q14

Which product is **most** likely to be provided only by the government?

A national defence

B national health

C national museums

D national theatres

147) 9708/w19/11/Q17

A government gives a subsidy to a producer of a product.

What will be the likely effect of this?

A a shift to the left in the demand curve and a rise in equilibrium quantity

B a shift to the left in the supply curve and a rise in equilibrium quantity

C a shift to the right in the demand curve and a fall in equilibrium price

D a shift to the right in the supply curve and a fall in equilibrium price

148) 9708/w19/12/Q14

Why might governments provide free education for children aged 4 to 16 years old?

A Consumers are not fully aware of the benefits of education.

B Education in a free market system would be over consumed.

C Education is a public good and there would be many free riders.

D The private costs of education exceed the private benefits in a free market.

149) 9708/w19/12/Q17

The table identifies items of government annual spending.

	$ million
army pay	35
civil servants' salaries	125
farming subsidies	15
pension payments	75
welfare benefits	50

What is the total government expenditure on transfer payments?

A $50 m **B** $125 m **C** $175 m **D** $300 m

150) 9708/w19/13/Q13

What is **most** likely to decrease if the government pays a subsidy to the producers of a product?

A government spending

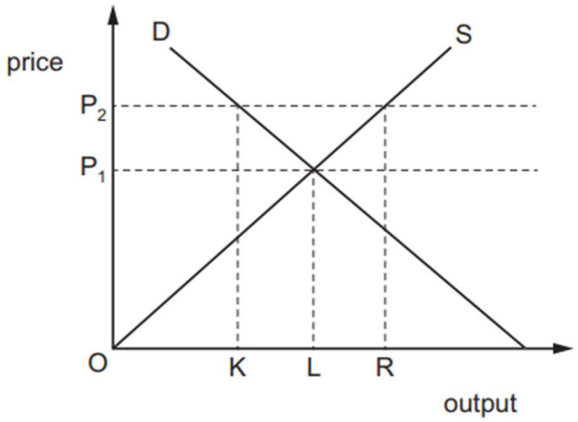
B output of the product

C price of the product

D rates of taxation

151) 9708/w19/13/Q18

The diagram shows the market supply and demand curves for wheat.



What should a government do to maintain a minimum price of OP_2?

A buy quantity KL

B buy quantity KR

C sell quantity LR

D sell quantity KR

152) 9708/m20/12/Q15

A government imposes a maximum rent in order to make rented housing more affordable.

What is likely to be a long-run consequence if the maximum is set below the current free market level?

A a shortage of applicants for rented housing

B a shortage of rented housing

C an increase in supply to satisfy the increased demand for rented housing

D an increase in the number of houses being rented

153) 9708/m20/12/Q16

What would be categorised as direct government provision of goods and services?

A a government grant to a firm to provide healthcare services

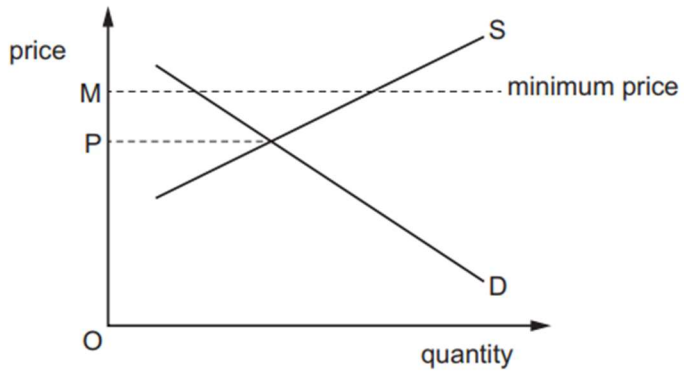
B a government regulation on the amount of sugar in soft drinks

C a government subsidy to a firm that operates a regional train service

D a government takeover of a local bus service

154) 9708/s20/11/Q15

The diagram shows a market where a government has set a minimum price of OM.



What can be concluded from the diagram?

A At prices above OM, there would be a surplus of the good.

B At the minimum price OM, there would be a shortage of the good.

C Price will fall automatically from OM to OP.

D The minimum price will be ineffective.

155) 9708/s20/12/Q16

A government decides to replace a private company with its own company to collect household waste.

Why could such action be justified?

A Because waste collection is a public good.

B Costs of waste collection are bound to be lower if paid out of local taxes.

C Private companies are always less efficient than government companies.

D Private companies might put profits before customer needs.

156) 9708/s20/12/Q17

Which measure would **not** be part of a government subsidy to protect domestic producers from competition?

A import quotas

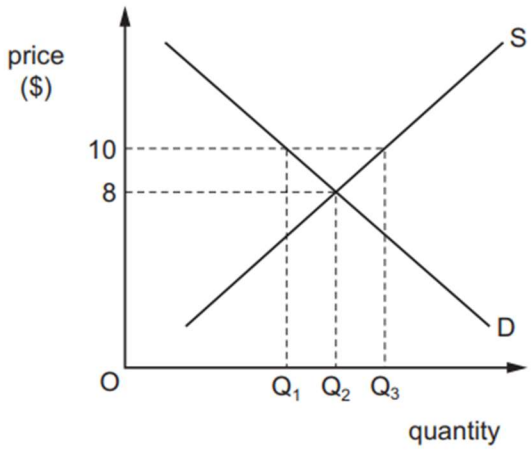
B interest-free loans provided by the government

C reductions in profits (business) taxes

D transfer payments

157) 9708/s20/12/Q15

The diagram shows the market demand and supply curves for rice.



What would happen if a government imposed a maximum price of $10?

A The government would need to supply Q_1 to Q_3.

B The quantity sold would be Q_1.

C The quantity sold would be Q_2.

D The quantity sold would increase from Q_2 to Q_3.

158) 9708/s20/12/Q18

A country's railways are currently run by private firms. It has been suggested that the government should nationalise the railways.

What might be a reason for this?

A to control prices of railway services

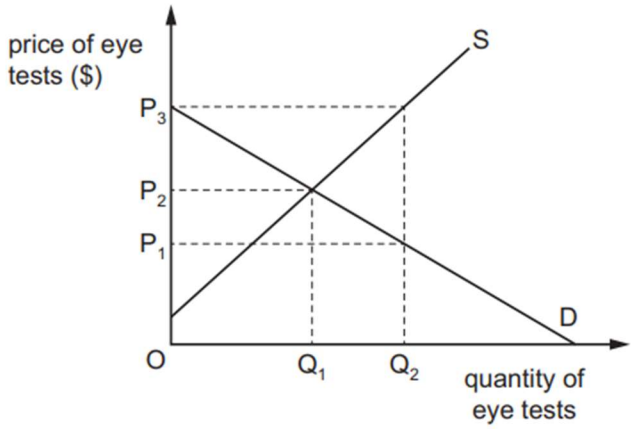
B to encourage competition in railway services

C to increase the profit incentive

D to provide jobs for local people

159) 9708/s20/13/Q16

The diagram shows the market for eye tests.



Which policy would enable the government to increase the number of eye tests from OQ_1 to OQ_2?

A a maximum price of OP_3 per test

B a minimum price of OP_2 per test

C a subsidy paid to opticians of $P_3–P_2$ per test

D a subsidy paid to opticians of $P_3–P_1$ per test

160) 9708/s20/13/Q17

In November 2017, the Scottish government introduced a minimum price for alcohol because of the detrimental health effects of alcohol consumption.

Which combination of actions is most likely to lead to a failure with respect to reducing the detrimental effects of the consumption of alcohol?

	action 1	action 2
A	minimum price is set too high	effective information provision regarding the health effects of consuming alcohol
B	minimum price is set too high	effective subsidisation of non-alcoholic beverages
C	minimum price is set too low	health benefits of reduced alcohol consumption have been overestimated
D	minimum price is set too low	stricter enforcement of the regulations relating to the sale of alcohol

161) 9708/s20/13/Q18

What is an example of direct provision by a government?

A The government introduces a subsidy on renewable fuels to help the environment.

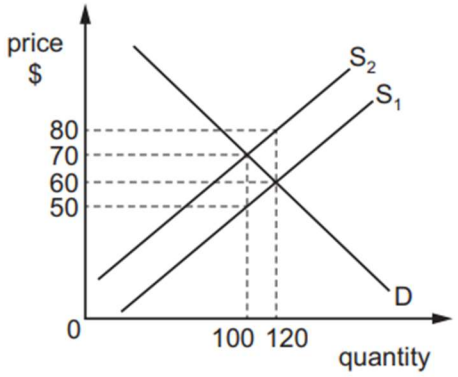
B The government introduces a unit tax on cigarettes to discourage consumption.

C The government sets a maximum rent on housing to protect tenants.

D The government takes over a private library to improve local services.

162) 9708/w20/11/Q15

The diagram shows the impact of a unit tax imposed by a government on a good. The original supply curve is S_1 and the supply curve after the unit tax is S_2.



What would be the amount of tax paid by the consumer?

A $500 **B** $1000 **C** $1500 **D** $2400

163) 9708/w20/12/Q14

A government decides to privatise a state-owned company.

What should the government do to try to ensure that this will result in an improvement in efficiency?

A allocate vouchers to all citizens entitling them to a share in the ownership of the company

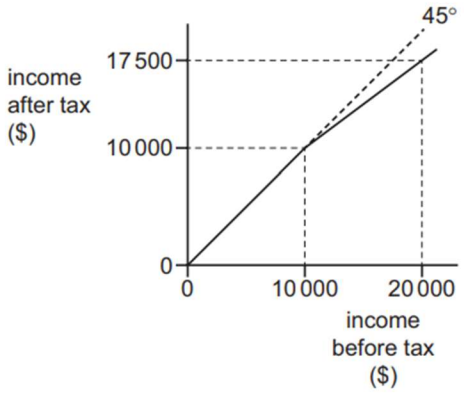
B encourage competition

C impose a maximum profit margin

D increase business tax rates

164) 9708/w20/12/Q15

The graph shows an individual's income before and after the deduction of income tax.

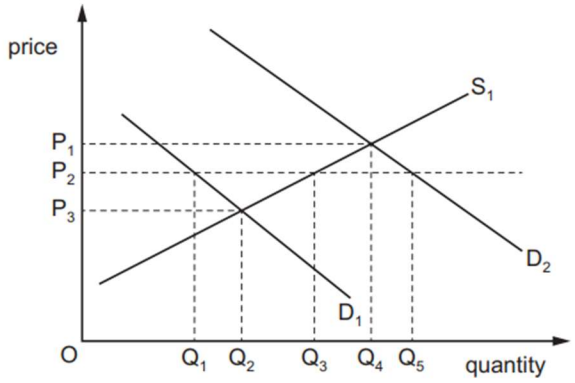


What is the marginal percentage rate of tax between $0 and $10 000, and between $10 000 and $20 000?

	$0–$10 000	$10 000–$20 000
A	0%	12.5%
B	0%	25.0%
C	1%	12.5%
D	1%	25.0%

165) 9708/w20/12/Q16

In year 1, in the market for a good represented in the diagram, the initial demand and supply conditions are shown by D_1 and S_1, and the government has set a maximum price of OP_2.



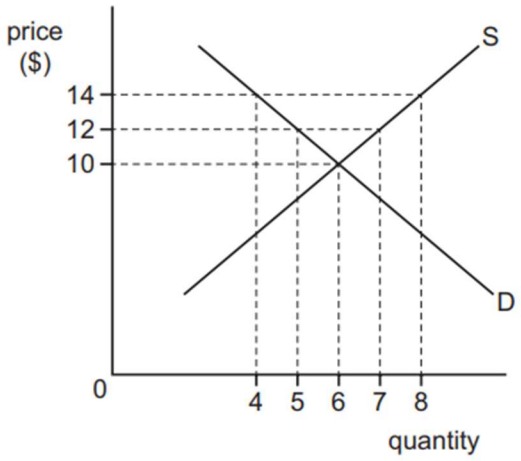
In year 2, demand increases to D_2, but there are no other changes to the conditions of supply or to the maximum price.

Which row accurately shows the price and quantity in the market in each year?

	year 1		year 2	
	price	quantity	price	quantity
A	OP_2	OQ_1	OP_1	OQ_4
B	OP_2	OQ_3	OP_2	OQ_5
C	OP_3	OQ_2	OP_1	OQ_4
D	OP_3	OQ_2	OP_2	OQ_3

166) 9708/w20/13/Q13

The diagram shows the market for CDs.



A government raises the minimum price of CDs from $12 to $14.

What will be the outcome?

A Excess demand increases by 2 units.

B Excess demand increases by 4 units.

C Excess supply decreases by 2 units.

D Excess supply increases by 2 units.

167) 9708/w20/13/Q14

A government regards alcoholic drinks as a demerit good and introduces a minimum price above the equilibrium in an attempt to protect consumers. Demand for alcoholic drinks is price inelastic.

What is the most likely outcome?

A a fall in the revenue of alcoholic drink producers

B a fall in the quantity of alcoholic drink sales

C a long-run shortage of alcoholic drinks

D an increase in specific tax revenue from the sale of alcoholic drinks

168) 9708/w20/13/Q15

A government subsidy of $50 per unit is paid to manufacturers of solar panels.

What will be the impact of this?

A It will guarantee equilibrium in the solar panel market.

B It will maintain high market prices.

C It will reduce total production costs.

D It will stabilise levels of output.

169) 9708/w20/13/Q16

Why might a government privatise the railway industry in a country?

A Economists classify railway journeys as a public good.

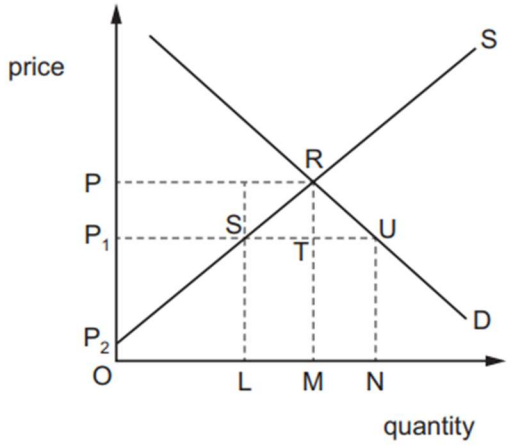
B Privatisation would provide funds for investment from a wider range of sources.

C Privatised railways would be run to maximise producer surplus.

D Railway fares can be taxed to raise money for the government only if railways are privatised.

170) 9708/m21/12/Q6

The diagram shows the market for sugar which is initially in equilibrium at a price of OP.



A government then fixes a maximum price of OP_1.

What will happen as a result?

A a reduction in farmers' revenue equal to $PRSP_1$

B expenditure on sugar will be equal to PRMO

C farmers' revenue would be P_1UNO

D producer surplus will be P_1SP_2

171) 9708/m21/12/Q14

After a series of poor harvests, a government imposes an effective maximum price on cereals.

What would be a consequence of this policy?

A Both rich and poor people would satisfy their demands equally.

B Illegal buying and selling through a black market would be prevented.

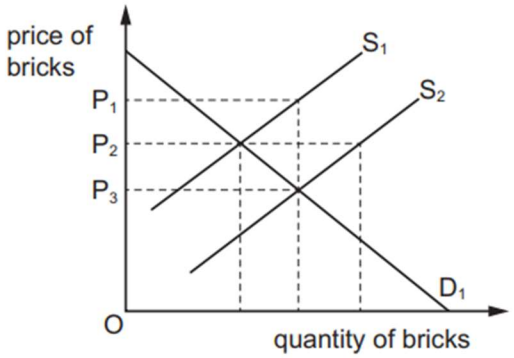
C Rationing would be necessary to ensure a fair distribution of cereals.

D The market would fail to clear leaving a surplus of cereals.

172) 9708/m21/12/Q17

A government wishes to increase the supply of houses. It pays a subsidy to brick manufacturers to increase supplies of bricks to S_2.

The diagram shows the supply of and demand for bricks.



Which size of subsidy per unit is required to increase supply to S_2?

A OP_3 **B** P_1P_2 **C** P_1P_3 **D** P_2P_3

173) 9708/m21/12/Q18

Why is national defence provided by the government?

A In a free market it is excludable and rival in consumption.

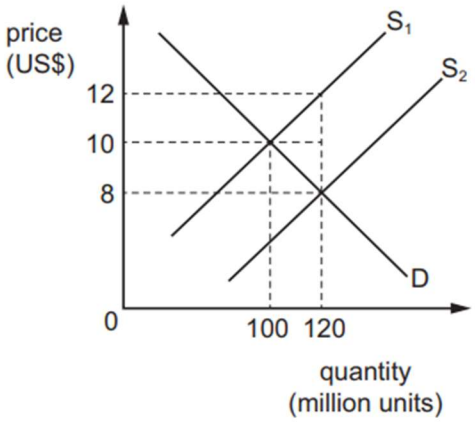
B In a free market it is non-excludable and non-rival in consumption.

C The government has perfect information, so it can set the correct quantity required.

D The private sector firm would charge a high price for its use as it is a necessity.

174) 9708/s21/12/Q15

The diagram shows the effect of the government introducing a subsidy on a product.



What are the effects of the subsidy on government spending and consumer spending?

	government spending	consumer spending
A	increases by US$240 million	decreases by US$40 million
B	increases by US$240 million	decreases by US$200 million
C	increases by US$480 million	decreases by US$40 million
D	increases by US$480 million	decreases by US$200 million

175) 9708/s21/12/Q17

The table shows sources of government revenue in a fiscal year for an economy.

source of revenue	$ billions
sale of government assets	100
tax on self employed	1000
carbon tax on goods produced	100
corporate taxes	500
capital gains tax	100
goods and services tax	1000
air passenger tax	100

What is the total amount, in $ billions, of tax revenue raised by indirect taxes?

A 1200 **B** 1300 **C** 1400 **D** 1600

176) 9708/s21/13/Q14

In many countries there are goods that must be provided directly by the government.

What would be the most convincing argument for such provision?

A The consumption of these products may be beneficial.

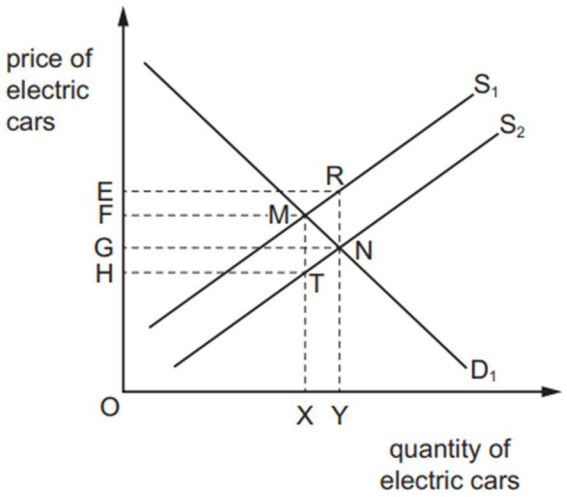
B The production of these products may be harmful.

C The production of these products have high opportunity costs.

D These products are non-rival in consumption and non-excludable.

177) 9708/s21/13/Q16

The diagram represents the original demand curve D_1 and the original supply curve S_1 for electric cars. The government decides to provide a subsidy to electric car manufacturers.



Which area represents the total revenue of the car manufacturer after receiving the subsidy from the government?

A OERY **B** OFMX **C** OGNY **D** OHTX

178) 9708/s21/13/Q18

Government spending for a year includes these items.

	$m
pensions for elderly people	200
welfare payments to sick people	200
spending on hospitals	150
payment to unemployed workers	100
defence spending	100
teachers' salaries	50

What is the total of transfer payments by this government in $m?

A 50 **B** 500 **C** 750 **D** 800

179) 9708/w21/11/Q18

An effective minimum price is applied to alcohol in an attempt to reduce consumption.

Why would a government **not** buy up any surplus created?

A Buying the surplus would be costly to the government.

B Buying the surplus would decrease the incomes of producers.

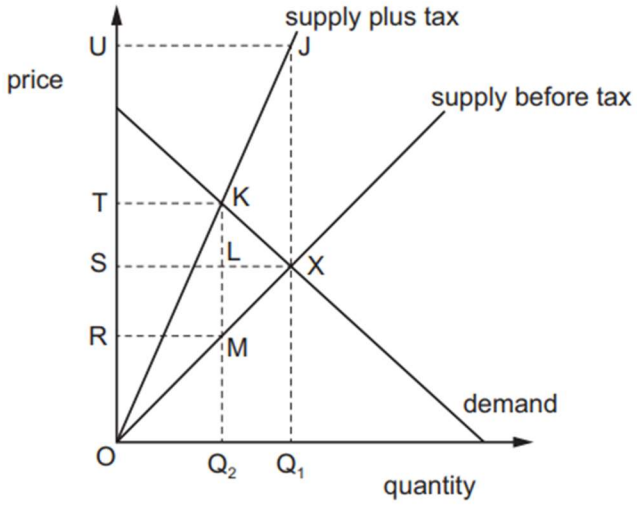
C Buying the surplus would lead to a shortage.

D Buying the surplus would lead to unemployment.

180) 9708/w21/12/Q7

The market for mobile phones is initially in equilibrium at X. The government then imposes a sales tax.

What is the government's total tax revenue from this tax?



A JKX **B** TKLS **C** TKMR **D** UJXS

181) 9708/w21/12/Q16

Why might a government nationalise a private firm?

A to gain greater efficiency due to more competition

B to increase merit good provision

C to increase choice for the consumer

D to raise more tax revenue

182) 9708/w21/13/Q12

The table shows the market demand and market supply for kiwifruit over a year.

At a market price of $3 per kg there is disequilibrium in the market.

price of kiwifruit ($ per kg)	total market demand (thousand tonnes)	total market supply (thousand tonnes)
1	220	120
2	190	130
3	160	140
4	130	150
5	100	160

Which action would the government have to take to achieve market equilibrium at a price of $3 per kg?

A impose an indirect tax of $2 per kg on kiwifruit

B purchase the entire supply at $3 per kg and sell at $2 per kg

C set a maximum price of $3 per kg

D subsidise kiwifruit production by $2 per kg

183) 9708/w21/13/Q15

Why does the production of public goods have to be financed by the government?

A One person's consumption of a public good means it is not available for anyone else.

B People are able to consume public goods without paying for them.

C Private sector firms will charge a price significantly above cost for public goods.

D The cost of producing public goods is higher in the private sector.

184) 9708/w21/13/Q18

A government wishes to reduce the consumption of alcohol.

Which policy will it use to achieve this aim by fixing the price of alcohol?

A fix maximum price above market price

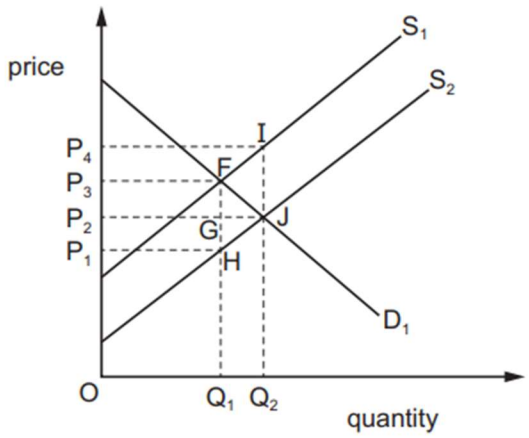
B fix maximum price below market price

C fix minimum price above market price

D fix minimum price below market price

185) 9708/w21/13/Q17

The diagram shows the effects of a subsidy in the market for wheat.



Which area shows the total government spending on the subsidy?

A OP_2JQ_2 **B** OP_3FQ_1 **C** P_3FJP_2 **D** P_2P_4IJ

186) 9708/m22/12/Q15

What are the effects of a government imposing a maximum price below the equilibrium price?

	demand	supply
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

187) 9708/m22/12/Q16

The National Library Board of Singapore is a public sector organisation that finances and manages the state libraries.

What is the **most** likely reason for this?

A Libraries are public goods.

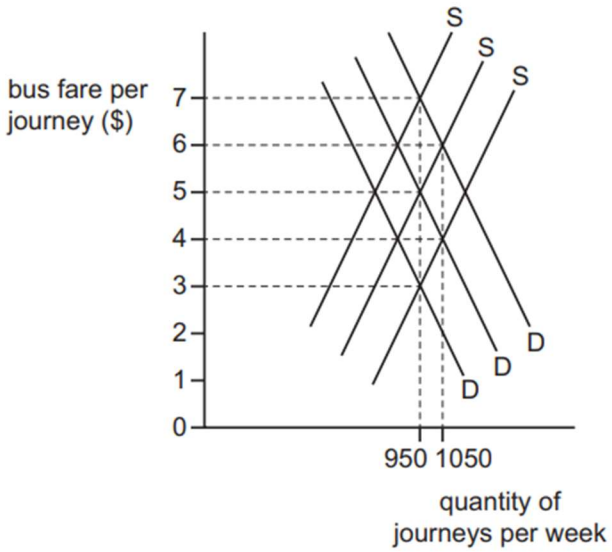
B Libraries are merit goods.

C The cost of providing library services would be greater in the private sector.

D The opportunity cost to the public sector of providing library services is zero.

188) 9708/m22/12/Q18

The bus fare in a rural area is $5 per journey. The government decides to improve local transport by giving bus firms a subsidy of $2 per journey. The diagram shows the possible changes in demand and supply.



What is the new quantity of journeys and the bus fare for a journey?

	quantity of journeys	bus fare ($)
A	950	3
B	950	7
C	1050	4
D	1050	6

189) 9708/s22/11/Q23

Why might a country's government impose a tax on fuel exports?

A to encourage domestic refineries to increase production

B to improve the country's trade balance

C to reduce fuel prices for domestic consumers

D to reduce the government's budget surplus

190) 9708/s22/12/Q15

The demand and supply functions for a product are quantity demanded = 1500 + 50P and quantity supplied = 300P – 2000 where P = price. With government regulation, the current price in the market is $15.

What can be concluded about the form of price regulation and the balance of demand and supply in the market?

	form of price regulation	balance of demand and supply
A	effective maximum price	excess demand
B	effective maximum price	excess supply
C	effective minimum price	excess demand
D	effective minimum price	excess supply

191) 9708/s22/12/Q16

To improve the air quality for its citizens, a government introduces a subsidy for the producers of cars powered by batteries charged from the electricity supply.

What are the likely effects of this subsidy on the price and sales of electricity?

	price of electricity	sales of electricity
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

192) 9708/s22/12/Q17

What is definitely **not** involved when a transfer payment is made?

A bank deposits

B cash

C government

D production

193) 9708/s22/12/Q18

What is **unlikely** to occur with an increase in the provision of public goods?

A consumer non-excludability

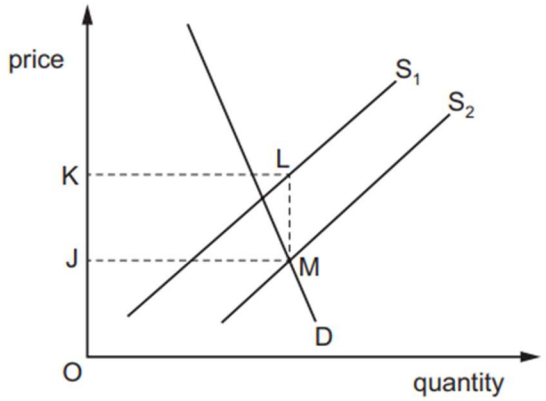
B improved use of resources

C opportunity cost

D reduction in tax

194) 9708/s22/13/Q14

The diagram shows the effect on the market for rice of a change in government policy that causes a shift in the supply curve from S_1 to S_2.



What does the area JKLM represent?

A the cost to the government of a subsidy to rice growers

B the extra saving to importers of the removal of a tariff on rice

C the increase in consumer surplus from the introduction of a maximum price for rice

D the loss in government revenue from the reduction in a lump sum tax on rice

195) 9708/s22/12/Q15

The table shows four categories of government expenditure over two time periods.

category	period 1 ($000)	period 2 ($000)
building of new roads	200	350
welfare benefits	600	450
pay of armed forces	500	550
state pensions	1100	1350

By how much had transfer payments changed between periods 1 and 2?

A 0 **B** +100 **C** +150 **D** +300

196) 9708/s22/12/Q17

A government imposes a maximum price on medical face masks, below the market equilibrium.

What is the most likely effect of this?

A Some consumers will be unable to buy face masks at the maximum price.

B Firms will produce more masks to meet the excess demand at the maximum price.

C Poorer consumers will be able to obtain all the masks they need at the maximum price.

D The market will clear at the maximum price.

Q.No	Answer	Q.No	Answer	Q.No	Answer	Q.No	Answer	Q.No	Answer
1	A	45	A	89	D	133	C	177	A
2	D	46	A	90	A	134	C	178	B
3	C	47	D	91	D	135	B	179	A
4	B	48	D	92	B	136	C	180	C
5	A	49	B	93	C	137	D	181	B
6	B	50	A	94	A	138	B	182	D
7	B	51	C	95	C	139	D	183	B
8	D	52	C	96	B	140	D	184	C
9	B	53	C	97	D	141	D	185	D
10	B	54	A	98	D	142	A	186	C
11	B	55	A	99	B	143	C	187	B
12	C	56	A	100	C	144	A	188	C
13	B	57	D	101	C	145	A	189	C
14	B	58	D	102	C	146	A	190	D
15	B	59	D	103	D	147	D	191	D
16	D	60	A	104	C	148	A	192	D
17	D	61	A	105	D	149	B	193	D
18	A	62	A	106	D	150	C	194	A
19	C	63	C	107	B	151	B	195	B
20	D	64	B	108	C	152	B	196	A
21	D	65	B	109	A	153	D		
22	D	66	A	110	A	154	A		
23	D	67	A	111	B	155	D		
24	C	68	C	112	C	156	A		
25	A	69	C	113	A	157	C		
26	C	70	A	114	A	158	A		
27	D	71	B	115	B	159	D		
28	A	72	C	116	C	160	C		
29	D	73	C	117	D	161	D		
30	C	74	B	118	C	162	B		
31	D	75	B	119	D	163	B		
32	B	76	A	120	C	164	B		
33	B	77	B	121	B	165	D		
34	C	78	C	122	D	166	D		
35	A	79	B	123	D	167	B		
36	B	80	A	124	C	168	C		
37	A	81	C	125	D	169	B		
38	A	82	C	126	A	170	D		
39	C	83	C	127	A	171	C		
40	D	84	B	128	D	172	C		
41	D	85	C	129	B	173	B		
42	B	86	C	130	C	174	C		
43	B	87	C	131	C	175	A		
44	A	88	D	132	A	176	D		